Metro Bank PLC
Full year results
Trading Update 2019
26 February 2020

Metro Bank PLC (LSE: MTRO LN)

Results for Year ended 31 December 2019

- **Financial performance reflects a challenging year**
- **Balance sheet strength retained**
- **Strong annual growth in customer accounts**
- **Ambition to become the UK's best community bank**

Summary:

- **Underlying loss before tax of £11.7 million (2018: £50.0 million profit) reflecting balance sheet strengthening actions, IFRS 16 impact and debt interest expense.**
- **Statutory loss before tax of £130.8 million** (2018: £40.6 million profit) primarily reflecting a £68 million write-down of intangible assets (no impact on regulatory capital).
- **21% growth in retail and SME** core deposits to £10.2 billion (2018: £8.4 billion).
- **Net fee and other income up 43%,** driven by customer growth and the launch of fee-earning services.
- **Strong capital position** with Common Equity Tier 1 (CET1) ratio of 15.6% (2018: 13.1%).
- **Surpassed 2.0 million customer accounts** (2018: 1.6 million).
- **Rated no. 1 for service in stores and for online and mobile banking**[1].
- **Strategic ambition to become the UK's best community bank.**
- **Strategic plan revised to achieve statutory RoTE >8.5% by 2024:**
  - Deliverable cost and revenue initiatives identified and being implemented, complemented by targeted investments, with returns further enhanced through balance sheet optimisation

Key Financials:

£ in millions	**31 December 2019**	**31 December 2018**	**Change from full year 18**	**30 September 2019**	**Change from Q3 19**
Assets	£21,400	£21,647	(1%)	£21,002	2%
Loans	£14,681	£14,235	3%	£14,891	(1%)
Deposits	£14,477	£15,661	(8%)	£14,231	2%
Loan to deposit ratio	101%	91%	10pp	105%	(4pp)
CET 1 capital ratio	15.6%	13.1%	250bps	16.2%	(60bps)
Total capital ratio	18.3%	15.9%	240bps	18.9%	(60bps)
Liquidity coverage ratio	197%	139%	58pp	-	-

£ in millions	**Year ended 31 December 2019**	**Year ended 31 December 2018**	**Change**
Total underlying revenue	£400.1	£404.1	(1%)
Underlying (loss)/profit before tax[2]	(£11.7)	£50.0	(123%)
Statutory (loss)/profit before tax	(£130.8)	£40.6	(422%)
Net interest margin	1.51%	1.81%	(30bps)
Underlying EPS- basic	(10.8p)	39.4p	(127%)
Underlying EPS- diluted	(10.8p)	38.2p	(128%)

1. Results from the Competition and Market Authority's February 2020 Service Quality Survey.
2. Underlying (loss)/profit before tax excludes Listing Share Awards, impairment of property, plant & equipment ("PPE") and intangible assets, net BCR costs, transformation costs and remediation costs. Statutory (loss)/profit after tax is included in the Profit and Loss Account.

Dan Frumkin, Chief Executive Officer at Metro Bank, said:
"Our financial performance reflects a very challenging year for Metro Bank. External headwinds, internal challenges and actions we took to put the business on a more positive trajectory are reflected in the results. Despite this, Metro Bank's market-leading service proposition continued to deliver growth in customer accounts, and our balance sheet ended the year in a materially stronger position. We've fully evaluated our strategy, and have a clear plan which will return the bank to sustainable growth built around a community banking model. An enhanced focus on costs, improved productivity, and investment in our infrastructure will enable our deposit-led franchise to deliver profitable growth over the medium term. Thanks to the steadfast commitment of colleagues across the bank, I am confident we will successfully execute against these priorities to become the UK's best community bank."

A presentation for investors and analysts will be held at 08:30 GMT on 26 February 2020.

The presentation will be webcast on:

https://event.on24.com/wcc/r/2180103/0B87C516F118372B20DA70B3C08A88FC

For those wishing to dial-in:

From the UK dial: +44 3333 000 0804
From the US dial: +1 631 913 1422
Participant Pin: 49156297#
URL for other international dial in numbers:
http://events.arkadin.com/ev/docs/NE_W2_TF_Events_International_Access_List.pdf

Strategic update and outlook

- **Following a challenging year, the bank has undertaken a comprehensive review of its strategy.** The refreshed strategy to become the UK's best community bank is built on firm foundations: robust capital and liquidity; strong asset quality; simple balance sheet; sector leading customer service underpinned by a strong culture and engaged colleagues; and customer account growth momentum. We will deliver a statutory RoTE of >8.5% by 2024.

- **Outstanding customer service and convenience** across a range of distribution channels will remain at the core of Metro Bank's strategy. Being the UK's best community bank means serving the local economy by focusing on the requirements of individuals and small businesses. We will focus on five straight forward pillars that will enable us to deliver for stakeholders:

    1. **Tight cost control through back office efficiencies and organisational simplification.** Metro Bank's fixed costs make up a significant portion of its cost base, primarily due to the store network; this in time will deliver significant operating leverage and drive revenue. In the meantime, the bank has initiatives in place to ensure cost growth continues to moderate. New stores will become more cost efficient and flexible in size, fit-out and leasing terms. The bank will also streamline its back-office operations by relocating to cost effective locations, modernise contact-centre technology, aim to digitise/automate services and reduce organisational layers across the bank.

    2. **Improve capability and meet more customer needs through better execution.** Metro Bank intends to maintain and improve its leading customer service to both deepen existing relationships and attract new FANS with the aim of driving revenue and NIM growth. The current product offering will be enhanced and broadened, and the bank will invest in its colleagues and technology to enhance accessibility for customers. A limited number of new stores will be opened over the next few years, allowing Metro Bank to be embedded in more communities. Existing and new stores will benefit from the new marketing campaign which will raise awareness of Metro Bank's award-winning service.

    3. **Continued infrastructure investment to support the transformation**. Continued investment in Metro Bank's leading customer proposition with the aim of bringing the physical and digital world together, making life easier for FANS and colleagues. This will be underpinned by further investment in technology, finance and risk infrastructure.

    4. **Optimise our balance sheet.** Metro Bank will optimise its balance sheet and asset mix whilst focusing on risk adjusted return on regulatory capital. In the short-term, tactical asset disposals will be considered, and in the longer term a number of funding diversification options will be considered to deliver greater risk adjusted returns on capital. The bank will seek a better yielding asset book and improved returns on regulatory capital by rebalancing its lending mix towards areas such as specialist mortgages, SMEs and unsecured loans.

    5. **Clear and refreshed external and internal communications strategy**. Metro Bank's refreshed strategy will focus on providing colleagues, shareholders and other stakeholders with a clear message. Internally, the

bank will ensure colleagues have a clear understanding of its transformation plan and their role within this. Externally, the bank is re-evaluating guidance, KPIs, tone and frequency of reporting.

Guidance and Targets

	FY2020	FY 2024	
	Guidance	**Targets**	**Guidance**
Deposits	• Mid-single digit growth	• <10% deposit CAGR 2020-2024 • <100% loan to deposit ratio	• Cost of deposits to reduce over time as the mix of current accounts increases
Revenue	• NIM in line with Q4 2019	• NIM expansion vs FY 2019 • Fee and other income to increase as proportion of revenue mix • 15-30 bps cost of risk	• Target lending mix (75% mortgages, 20% SME and 5% unsecured)
Operating Costs	• Mid-high-single digit growth excluding investment opex	• New investment spend £250-£300m opex (excluding depreciation and amortisation) and c.£100m capex by 2024, front-end loaded • Cost income ratio 70-75% by 2024 (includes new investment spend, amortisation and depreciation)	• 'Run the bank' cost low single digit CAGR 2020-2024
Capital	• CET1 ratio >12%	• Minimum 12% CET1 and >22.5% Total Capital plus MREL • Up to £500m of MREL issuance before 1 Jan 2022	• Additional MREL issuance post Jan 2022 in line with regulatory requirements
Returns		• >8.5% statutory RoTE by FY2024	• Conservative target prudently excludes impact of AIRB approval

BCR Capability & Innovation Fund Award

- **Revised Business Case submitted to, and approved by, BCR Ltd ("BCR")** to align Metro Bank's Public Commitments with its new strategy. Metro Bank will return £50 million of the original £120 million funding it was awarded last year.

- **Summary of key changes to the Public Commitments**

    - Metro Bank will **continue to spend ~£2 of its own funds for every pound** it receives from the Capability & Innovation Fund
    - Metro Bank will open a total of **15 rather than 30 stores** in the North of England by 2025
    - Metro Bank will continue to build a range of **game-changing digital capabilities** to help SMEs thrive

- Metro Bank will step away from niche SME propositions that benefit a smaller group of SMEs, including secured lending transformation, virtual accounts and pooling; it will re-phase a further three initiatives to create near-term capacity for transformation.

- These commitments continue to allow Metro Bank to bring market-leading service and convenience to SME customers with a targeted c.6% BCA market share by 2025, and deliver on its new strategy.

Financial performance for the year and quarter ended 31 December 2019

£ in millions	**31 December 2019**	**31 December 2018**	**Change from full year 18**	**30 September 2019**	**Change from Q3 19**
Demand: current accounts	£4,278	£4,685	(9%)	£4,181	2%
Demand: savings accounts	£5,593	£6,924	(19%)	£5,700	(2%)
Fixed term: savings accounts	£4,606	£4,052	14%	£4,350	6%
Deposits from customers	£14,477	£15,661	(8%)	£14,231	2%
Deposits from customers includes:					
Retail customers (excl. retail partnerships)	£6,891	£5,190	33%	£6,351	9%
Retail partnerships	£1,839	£2,239	(18%)	£1,890	(3%)
Deposits from retail customers	£8,730	£7,429	18%	£8,241	6%
Commercial customers (excluding SMEs[3])	£2,486	£5,060	(51%)	£2,829	(12%)
SMEs	£3,261	£3,172	3%	£3,161	3%
Deposits from business and commercial customers	£5,747	£8,232	(30%)	£5,990	(4%)

3. SME defined as enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding €50 million, and/or an annual balance sheet total not exceeding €43 million, and have aggregate deposits of less than €1 million.

Deposits

- **Strong customer account growth of 385,000 in 2019** (2018: 403,000) to over 2 million.

- **Total deposits were £14,477 million as at 31 December 2019**. A net reduction in deposits in H1 was followed by a 6% increase in the second half, supported by strong growth in fixed term retail savings accounts and growth in SME balance.

- **Deposits increased in the fourth quarter (£246 million), as expected.** Deposits from personal and small business customers continued to demonstrate resilience throughout the year.

- **Cost of deposits was 78bps for the full year** up from 61bps in 2018 due to pricing actions taken during the year.

Loans

- **Total net loans as at 31 December 2019 were £14,681 million, up from £14,235 million at 31 December 2018**, reflecting proactive management of lending growth. Loan balances contracted marginally in the fourth quarter (down 1%).

- **Retail mortgages remained the largest component of the lending book** at 71% of gross lending (31 December 2018: 67%).

- **Loan to deposit ratio at 101% is above the prior year (31 December 2018: 91%),** although below the 109% reported at H1, reflecting the bank's actions to reduce the loan to deposit ratio in a controlled way.

- **Asset quality remains strong,** with full year cost of risk remaining low at 0.08% (31 December 2018: 0.07%). Non-performing loans remain low, although increased to 0.53% (31 December 2018: 0.15%) reflecting seasoning of the loan portfolio and a single name commercial exposure, the loan portfolio remains highly collateralised.

£ in millions	**31 December 2019**	**31 December 2018**	**Change from full year 18**	**30 September 2019**	**Change from Q3 19**
Gross Loans and advances to customers	£14,715	£14,269	3%	£14,922	(1%)
Less: allowance for impairment	(£34)	£(34)	-	(£31)	10%
Net Loans and advances to customers	£14,681	£14,235	3%	£14,891	(1%)
Gross loans and advances to customers includes:					
Commercial loans	£4,052	£4,356	(7%)	£4,182	(3%)
Retail mortgages	£10,430	£9,625	8%	£10,495	(1%)
Consumer and other loans and advances	£233	£288	(19%)	£245	(5%)

Profit and Loss Account

- **Net interest margin of 1.51% compared to 1.81% in the prior year**, with the decline primarily reflecting actions taken to maintain a resilient balance sheet, including a £521 million loan portfolio disposal, £1.5 billion of treasury asset sales and higher deposit costs. The movement also reflects the impact of IFRS 16 lease accounting as well as continued pricing pressure in the mortgage market. The issuance of MREL in October 2019 in order to comply with interim MREL requirements contributed to a decline in the margin.

- **Net interest income down 7% to £308.1 million (2018: £330.1 million)** reflecting the movements in NIM described above. These actions, including a moderation of loan growth, reduced revenue by c.£12m in Q4 2019.

- **Net fee and other income was up 43% in the year** driven by customer growth, addressing fee leakage and the launch of new fee earning services and products.

- **Underlying cost:income ratio increased to 100% year-on-year from 86% in 2018**, largely reflecting net interest income headwinds. The pace of cost growth slowed significantly in the second half of 2019 compared to the rate of growth in the second half of the previous year.

- **Underlying loss before tax for the year was £11.7 million, compared to a profit of £50.0 million in 2018**, reflecting the income challenges and cost pressures outlined above. Loss in the fourth quarter increased to £22.7 million.

- **Statutory loss before tax of £130.8 million in 2019** (2018: £40.6 million profit) including:
  - **Write-down of intangible assets** (£68 million): relating to the discontinuation of certain work-in-progress or older IT projects that do not form part of the bank's revised strategy. This does not impact the bank's capital position as intangible assets are excluded from regulatory capital.
  - **Transformation costs** (£11 million): costs associated with the delivery of the cost transformation programme.
  - **Remediation costs** (£27 million): including work relating to the January 2019 risk weighted assets ("RWA") adjustment and associated regulatory investigations which are ongoing, as well as work undertaken in relation to a previously disclosed review of the bank's sanctions procedures.

- **Statutory loss after tax of £182.6 million in 2019** (2018: £27.1 million profit) that includes a £53 million derecognition of the bank's deferred tax asset for unused tax losses. This is an accounting non-cash item and does not impact regulatory capital or liquidity. The derecognition reflects the impact on the bank's short-term results of its investments announced as part of its strategy update.

Capital, Funding and Liquidity

- **Strong liquidity and funding position maintained**, reflecting H2 2019 deposit growth of £774 million, a £521 million loan portfolio disposal and £1.5 billion treasury asset sales. As a result, the bank's Liquidity Coverage Ratio was 197% as of 31 December 2019 (2018: 139%), compared to the bank's requirement of 100%.

- **Total capital as a percentage of risk-weighted assets was 18.3%.** Following the £350 million senior non-preferred debt issuance in October, total capital plus MREL resources were £2,018 million with a total capital plus MREL ratio of 22.1% at 31 December 2019, above the 21.5% 1 January 2020 interim MREL plus buffers requirement.

- **CET1 capital of £1,427 million** as at 31 December 2019 was 15.6% of RWAs (2018: 13.1% and Q3 2019: 16.2%), compared to the bank's Tier 1 regulatory minimum of 10.6%[4].

- **RWAs as at 31 December 2019 were £9,147 million** (2018: £8,936 million and Q3 2019: £9,242 million)**.**

- **Regulatory leverage ratio of 6.6%** (2018: 5.4%).

4. Based on current capital requirements, excluding any confidential PRA buffer, if applicable

Customer Experience

- **Expanded coverage**, opened a store in Manchester in the fourth quarter and new stores in Wolverhampton, Cardiff and Hammersmith in early 2020. Metro Bank now has 74 stores.

- **Enhanced digital offering**, launched Business Insights and MCash in the fourth quarter. These new services use the latest technology to improve Metro Bank’s attractive product offering for SME customers.

Board Changes

- Vernon Hill stepped down from his role as Chairman in October and from the Board on 17 December 2019. Sir Michael Snyder has been appointed as Interim Chairman, while the recruitment process for a permanent Chair progresses.

- Craig Donaldson stepped down at the end of the year as CEO and will remain available to the Board as an advisor until the end of 2020.

- Dan Frumkin, who joined Metro Bank in September 2019 as Chief Transformation Officer, was appointed to the Board as Interim CEO from 1 January 2020 and confirmed as CEO on 19 February 2020.

- Monique Melis, who joined the Board in June 2017, has been appointed as Interim Senior Independent Director with effect from 1 December 2019, following the appointment of Sir Michael Snyder as Interim Chairman.

- After 10 years on the Board, Alastair 'Ben' Gunn, stepped down as Deputy Chairman and Non-Executive Director with effect from 31 December 2019.

- Sally Clark joined the Board on 1 January 2020 as an independent Non-Executive Director. Most recently, Sally was Chief Internal Auditor at Barclays plc where she was responsible for driving the vision and strategy for the internal audit function.

Change of approach to quarterly reporting

Going forward, as the bank focusses on its new strategy and associated transformation plans, the bank will report full and half year results in line with UK practice, with short form trading updates at Q1 and Q3. These updates will include deposit and loan balances, together with a short commentary covering the performance of the business in the period.

Metro Bank PLC

Summary Balance Sheet and Profit & Loss Account

(Unaudited)

Balance Sheet	**Annual Growth Rate**	**2019** 31-Dec	30-Sep	**2018** 31-Dec
		£'m	*£'m*	*£'m*
Assets				
Loans and advances to customers	3%	14,681	14,891	14,235
Treasury assets[5]		5,554	4,837	6,604
Other assets[6]		1,165	1,274	808
Total assets	(1%)	**21,400**	**21,002**	**21,647**
Liabilities				
Deposits from customers	(8%)	14,477	14,231	15,661
Deposits from central banks		3,801	3,801	3,801
Debt securities		591	249	249
Other liabilities		948	959	533
Total liabilities		**19,817**	**19,240**	**20,244**
Total shareholder's equity		**1,583**	**1,762**	**1,403**
Total equity and liabilities		**21,400**	**21,002**	**21,647**

5. Comprises investment securities and cash & balances with central banks
6. Comprises property, plant & equipment, intangible assets and other assets

Profit & Loss Account	**Annual Growth Rate**	**12 months to 31 December** **2019**	**2018**
		£'m	*£'m*
Net interest income		308.1	330.1
Net fee and other income		90.4	63.3
Net gains on sale of assets		1.6	10.7
Total underlying revenue	(1%)	**400.1**	**404.1**
Operating costs	16%	(400.1)	(346.1)
Expected credit loss expense		(11.7)	(8.0)
Underlying (loss)/profit before tax	(123%)	**(11.7)**	**50.0**
Underlying taxation		(4.3)	(13.4)
Underlying (loss)/profit after tax	(144%)	**(16.0)**	**36.6**
Listing Share Awards		(0.6)	(0.9)
Impairment and write-down of property plant & equipment and intangible assets		(75.8)	(4.8)

Net BCR costs[7]		(2.1)	(3.8)
Transformation costs		(9.3)	-
Remediation costs		(26.1)	-
Derecognition of deferred tax asset		(52.7)	-
Statutory (loss)/profit after tax	(774%)	**(182.6)**	**27.1**
Underlying earnings per share - basic		(10.8p)	39.4p
Underlying earnings per share - diluted		(10.8p)	38.2p
Number of shares – undiluted		147.4m	93.0m
Number of shares – diluted		147.4m	95.9m
Number of shares – at period end		172.4m	97.4m
Net interest margin (NIM)		1.51%	1.81%
NIM + fees		2.00%	2.15%
Cost of deposits		0.78%	0.61%
Cost of risk		0.08%	0.07%
Underlying cost:income ratio		100%	86%

7. Net BCR costs includes amounts previously disclosed under costs relating to RBS alternative remedies package application, Capability & Innovation costs and Capability & Innovation funding

Profit & Loss Account-Quarterly	**Annual Growth Rate**	**2019**		**2018**
		Q4	**Q3**	**Q4**
		£'m	*£'m*	*£'m*
Net interest income		65.3	76.6	88.9
Net fee and other income[8]		18.7	25.3	18.3
Net (losses)/gains on sale of assets		-	(2.5)	2.0
Total underlying revenue	**(23%)**	**84.0**	**99.4**	**109.2**
Operating costs[8]		(101.5)	(99.7)	(96.0)
Expected credit loss expense		(5.4)	(1.9)	(2.0)
Underlying (loss)/profit before tax	**(304%)**	**(22.9)**	**(2.2)**	**11.2**
Underlying taxation		(1.6)	1.0	(4.2)
Underlying (loss)/profit after tax	**(450%)**	**(24.5)**	**(1.2)**	**7.0**
Listing Share Awards		(0.1)	(0.1)	(0.2)
FSCS levy		0.4	-	-
Impairment and write-down of property plant & equipment and intangible assets		(74.8)	-	(3.0)
Net BCR costs		(1.1)	-	(1.9)
Transformation costs		(3.9)	(0.8)	-
Remediation costs		(22.3)	(2.8)	-

Derecognition of deferred tax asset	(52.7)	-	-
Statutory (loss)/profit after tax	**(179.0)**	**(4.9)**	**1.9**
Underlying earnings per share - basic	(14.2p)	(0.7p)	7.2p
Underlying earnings per share - diluted	(14.2p)	(0.7p)	7.1p
Number of shares – undiluted	172m	172m	97.4m
Number of shares – diluted	172m	172m	99.8m
Net interest margin (NIM)	1.30%	1.50%	1.76%
NIM + fees	1.85%	1.99%	2.12%
Cost of deposits	0.87%	0.84%	0.67%
Cost of risk	0.14%	0.05%	0.06%
Underlying cost:income ratio	120%	100%	88%

8. In the fourth quarter £4.6m of fee and commission expenses relating to 2019 that were previously classified as operating costs were reclassified as net fee and other income to better reflect their nature.

For more information, please contact:

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About Metro Bank
Metro Bank is celebrated for its exceptional customer experience. Its mobile app and online service achieved the top spot in the Competition and Market Authority's Service Quality Survey among personal and business current account holders in February 2020; the bank also ranked in the top two for overall service and store service for personal and business customers. It was awarded 'Best All Round Personal Finance Provider' at the Moneynet Personal Finance Awards 2019.
Offering retail, business, commercial and private banking services, it prides itself on giving customers the choice to Bank however, whenever and wherever they choose. Whether that's through its network of stores open seven days a week, early until late, 362 days a year; on the phone through its UK-based 24/7 contact centres; or online through its internet banking or award-winning mobile app: the bank offers customers real choice.
The bank employs around 3,500 colleagues and is headquartered in Holborn, London.
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It is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority. Most relevant deposits are protected by the Financial Services Compensation Scheme. For further information about the Scheme refer to the FSCS website www.fscs.org.uk.
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Metro Bank PLC

Preliminary Announcement

(Unaudited)

For the year ended 31 December 2019

CHIEF EXECUTIVE OFFICER'S STATEMENT

I was delighted to join Metro Bank in September 2019, initially as Chief Transformation Officer and now as Chief Executive Officer. I would like to begin by extending my deepest thanks to all the Metro Bank colleagues who have welcomed me and more importantly have kept the customer focus at the heart of all we do, even during a challenging year.

Building on our strengths

In many ways, the response to the challenges of 2019 has demonstrated the underlying resilience of Metro Bank. The core strength of Metro Bank has been, and will remain, an AMAZEING group of colleagues who are tirelessly focused on customer service. It is our colleagues who will ensure Metro Bank achieves its ambition to become the UK's best community bank.

The CMA results, where Metro Bank was rated number 1 for store service and number 1 for mobile and online banking is external validation of what I have learned over the last few months – Metro Bank is completely focused on its customers. The ratings also show the commitment of Metro Bank to providing full-service community banking, instore, online and over the phone.

The energy expended to surprise and delight customers has continued to create FANS, even during a difficult 2019. Customer accounts grew almost 25% with 385,000 new accounts opened at Metro Bank during the year, bringing total accounts to more than 2 million. In addition, retail customer deposit balances grew 33% in the year and SME customer balances were up 3%.

Proving our community banking philosophy and 'clicks and bricks' model, combined with an exceptional level of service resonates well with customers we continue to be successful in growing the number of personal and business current accounts. Also in our current heartland of London and the South East the number of SME business current account switchers choosing Metro Bank remained strong in 2019 at 15%.

We're absolutely committed to bringing market-leading service to SMEs and injecting more competition into the market, and we have already demonstrated our success in deploying Capability & Innovation funds to date. For example, in 2019, Metro Bank launched Business Insights – an in-app account insights tool for SMEs, MCash – an on-demand cash collection and delivery service, and opened its first store in the North, in Manchester. In February 2020, we agreed a revised business case with BCR whereby we have aligned Metro Bank's public commitments with our new strategy, and will return £50m of the original £120m we were awarded. Looking forward, with a reduced amount of £70m, alongside Metro Bank's own investment of c.£140m, the bank will continue to transform the SME experience – through its market-leading service proposition, 15 new stores opening in the North of England (reduced from 30), and continued investment in its digital capabilities. With BCR's agreement, we're pleased to have been able to forge a new plan which delivers for SMEs and aligns with our new strategy.

The way forward – 'Becoming the UK's best community bank'

Over the last six months, my management team and I have worked with the Board to evaluate a new strategy for Metro Bank to enable it to deliver acceptable returns for shareholders. The inherent strengths of Metro Bank – AMAZEING culture, AMAZEING colleagues, AMAZEING customer service and a history of generating meaningful retail and SME deposit growth - provide solid foundations for a straightforward strategy where execution is key.

We have developed a set of strategic priorities with the ambition of becoming 'the UK's best community bank'. Community banking means being embedded in the local communities that we serve, ensuring local decision-making, providing access to simple and straightforward retail, business banking and corporate services that best meet the needs of residents and businesses in the surrounding area.

However, to build a platform that delivers acceptable returns for our shareholders, we must reduce the rate at which costs are growing, continue to evolve our customer proposition, invest efficiently in our infrastructure and be more effective with how we use our balance sheet to generate returns.

Our new strategy has these principles at its core:

1) Cost saving initiatives

Cost growth has outstripped revenue growth and this cannot continue. Metro Bank has invested heavily in its store estate, creating a significant fixed, or quasi-fixed, cost base. We have performed a detailed store by store financial analysis to consider whether it made economic sense to close stores. It doesn't. Every store is still growing – all are more profitable tomorrow than today – and they provide a significant untapped potential as a distribution channel.

There are another group of costs that are driven by the operations of the business. These processing costs, including things like payment processing, credit card processing, etc. are mostly volume driven and bound by existing contracts. Another difficult area for reducing costs over the short-term.

The remaining costs, the addressable costs, are made up of non-store colleague costs, non-store lease costs and non-store operations.

To effectively control these expenses, plans are in place to revisit our non-store property leases, especially in central London. In addition, the infrastructure investment in the plan includes several initiatives that allows Metro Bank to scale more effectively. This includes new digital self-service functionality, more straight through processing and new call centre infrastructure.

We expect low single digit 'run the bank' cost growth CAGR 2020 to 2024, allowing the cost:income ratio to fall to 70-75% by 2024. To enable this objective, we will spend £250-£300 million of new opex investment (excluding depreciation and amortisation) and c.£100 million of capex, front end loaded.

We have started to show our ability to moderate costs with sequential reductions in the pace of cost growth through 2019, and our revised agreement with BCR will allow us to become more cost efficient quicker while continuing to deliver for SMEs. This gives me great confidence that we can deliver our clear initiatives within the stated timeframe.

While there are a number of initiatives to contain costs, improving shareholder returns is a revenue story. It is about creating scale through deposit and revenue growth while holding costs and investments.

2) Revenue initiatives

There is significant opportunity to grow revenue at Metro Bank, through building stronger relationships with our existing customers, continuing to attract more people to our stores, embedding ourselves in more communities in the UK, continuing to invest in our number 1 rated digital and online offering and to upgrade our telephony infrastructure. This is a bricks, clicks and phone strategy that will drive revenue.

We need to deepen relationships with our customers by improving the range of our products and their availability through new and existing channels. For example, we intend to meet more customer needs by offering a broader range of unsecured customer loans, SME lending products, business and personal credit cards and niche mortgages, all while maintaining our disciplined attitude towards underwriting. This is an area Metro Bank has not previously focused on, evidenced by the fact that we currently sell an average of 2 unsecured personal loans per store per month and only 3% of our Personal Current Account base hold our credit cards.

It also aligns perfectly with our customer service ethos, by meeting more customer needs, we create more FANS. We will also build on Metro Bank's great strength of winning new customers and I believe that there is a significant opportunity to enhance footfall conversion in stores. We will do this by developing more effective in-store processes and improving colleague training.

Whilst we have grown our deposits at a CAGR of 30% over the last five years, our strategy conservatively budgets significantly lower deposit growth numbers over the next five years. In addition, 2020 has the lowest deposit growth forecast of any year in the plan and is only 25% of our annual deposit growth in 2018, even though Metro bank has six more stores.

Revenue growth is predicated on doing more with what we already have. The growth does not rely on significant store growth, although the plan does allow us to open of a limited number of new stores. This includes six stores in 2020 and a further 18 between 2021-2024 including our revised C&I commitment. This will give us the opportunity to embed Metro Bank in more communities and bring our award-winning proposition closer to more people.

3) Infrastructure

We need to continue to build our number 1 service propositions in store and digital/online to ensure we continue to offer the best channel experience in an efficient way. To enable this, we need to continue to invest in our digital and physical infrastructure to deliver process improvements and enhance our core capabilities. We will continue to invest in stores, but in a more cost-efficient way – our new stores will be flexible in both size and design and we'll aim to streamline and improve in store processes. We'll also grow our digital service offering and build out customer self-service opportunities. By pivoting towards greater automation we will improve our speed to market and streamline back-office functions.

It’s important that all of this is done whilst also enhancing our internal capabilities and resilience. This will be executed through investment in cyber resilience as well as investment in core risk systems such as financial crime infrastructure. We will of course continue investment in our core IT systems to ensure that we keep pace with the ever-changing regulatory agenda.

4) Balance sheet optimisation

Metro Bank has not focused on risk adjusted return on regulatory capital as much as is required to drive adequate returns to shareholders. Focusing on risk adjusted returns and growth in tangible book value will allow better planning decisions to be made going forward and deliver more value to shareholders.

Business lines, portfolios and investments will be reviewed based on the above discipline on an ongoing basis. We will sell assets, securitise portfolios and rethink investment spend as necessary to ensure we are maximising the return on the balance sheet.

The loan portfolio composition will shift over the life of the plan. Unsecured credit will be offered to SME and retail customers, applying risk based pricing. Niche mortgage lending will become a larger share of our mortgage operations and commercial lending to our valued customers will continue to grow.

5) Internal and external communications

I am pleased that we have launched our first marketing campaign – People-People Banking - which showcases our incredible colleagues and helps customers and potential customers to understand Metro Bank’s differentiators. We will set realistic expectations of the future direction of Metro Bank and update on progress in a timely manner. For our colleagues we will continue to provide full transparency to help inform and equip them to fulfil their roles and maintain our already high levels of engagement.

A challenging 2019

Last year, we faced headwinds from industry-wide competitive pressures, an evolving regulatory landscape, continued low interest rates and political uncertainty from Brexit. While these external challenges have dampened returns across the broader sector, Metro Bank faced specific challenges that impacted growth and profitability. These have been well trailed in previous announcements, and management undertook prudent steps to manage our capital and liquidity positions in response. Although these actions have impacted on profitability in the short to medium term, we enter 2020 with a resilient balance sheet, loyal FANS and a committed colleague base.

In closing, it would be remiss not to thank Vernon Hill and Craig Donaldson for all they have done for Metro Bank since it opened the doors to its first store 10 years ago. I truly appreciate the AMAZEING colleagues they have recruited into the business. It is these colleagues that give me confidence in the future of Metro Bank.

Dan Frumkin
Chief Executive Officer

FINANCIAL REVIEW

The challenges we have faced this year are reflected in our trading performance for 2019. Our underlying loss before tax of £11.7 million is a decrease from the £50.0 million underlying profit we reported in 2018. This reduction reflects a difficult market backdrop driven by sustained mortgage market competition, low interest rates, the earnings impact of debt issuance, and the adoption of IFRS 16 that changed how we account for our lease costs. We are also absorbing the financial impacts of management actions taken to maintain a strong capital and liquidity position following events of the first half of the year. The sale of £1.5 billion interest-bearing treasury assets, a £521 million loan portfolio disposal, adjustments to deposit pricing and a slower pace of loan growth have reduced revenue in the second half of the year. The statutory loss before tax of £130.8 million in 2019 reflects the impact of certain non-recurring items including the write-down of certain intangible assets as well as transformation and remediation costs.

Despite these challenges we have continued to deliver on key objectives. During 2019 we made good progress with our cost transformation programme, reducing the pace of cost growth in the second half of the year relative to prior periods, whilst continuing to expand our physical presence and product offering. We have also been successful in growing our customer base and deepening relationships with existing customers, driving higher underlying net fee and other income to £90.4 million, up 43% from £63.3 million in 2018. Asset quality has remained strong, with 2019 cost of risk at 0.08% compared to 0.07% in the prior year. Our strongly performing credit portfolios and a robust capital and liquidity position stands us in good stead as we enter 2020.

Deposits

Deposits from customers ended the year at £14.5 billion, with a reduction in the first half of the year driven by the intense speculation that preceded the £375 million equity capital raise in May 2019. Deposit withdrawals predominantly came from a limited number of our larger commercial customers with commercial deposit balances (excluding SMEs) reducing to £2.5 billion from £5.1 billion in 2018.

Customer deposits	**2019 £'billion**	2018 £'billion	Change
Retail customers (excluding retail partnerships)	**6.9**	5.2	33%
Retail partnerships	**1.8**	2.2	(18%)
Commercial customers (excluding SMEs)	**2.5**	5.1	(51%)
SMEs	**3.3**	3.2	3%
Total customer deposits	**14.5**	**15.7**	**(8%)**

Retail and SME deposits displayed significant resilience in 2019. Retail deposits (excluding retail partnerships) continued to grow through the year to £6.9 billion from £5.2 billion in 2018, supported in part by competitively priced fixed-term retail savings. We also reported a 3% improvement in the SME deposit base, which ended the year at £3.3 billion, compared to £3.2 billion in 2018, demonstrating the strength of our SME proposition. These stable and higher-liquidity value retail and SME deposits now represent 48% and 23% of our deposit base respectively, up from 33% and 20% as at 31 December 2018.

	2019 £'million	2018 £'million	Change
Deposits	**14,477**	15,661	(8%)
Customer accounts (m)	**2.0**	1.6	25%
% current accounts	**29%**	30%	(1pp)
Cost of deposits	**0.78%**	0.61%	17bps

Strong service recognition results, increasing brand awareness and new store openings as well as competitive pricing on our fixed-term retail savings products aided growth in the total number of customer accounts. 2019 was a strong year for customer acquisition, with the number of customer accounts growing to 2.0 million from 1.6 million at year-end 2018.

Deposit growth into 2020 and beyond, alongside excess liquidity and wholesale funding, will support the repayment of drawdowns under the bank of England's Term Funding Scheme ("TFS"). Our total borrowings under the scheme are £3.8 billion of which £543 million is repayable in the second half of 2020.

Assets
Total assets reduced marginally to £21.4 billion from £21.6 billion at the end of 2018, which primarily reflects a £1.1 billion reduction in treasury assets, partially offset by a £0.4 billion increase in net loans and advances to customers and a one-off £313 million increase in right-of-use lease assets following the adoption of IFRS 16. The reduction in treasury assets reflects the sale of non-LCR eligible assets to prudently manage the bank's liquidity position through the year.

	2019 £'million	2018 £'million	Change
Loans and advances to customers	**14,681**	14,235	3%
Total assets	**21,400**	21,647	(1%)
Loan to deposit ratio	**101%**	91%	10pp
Cost of risk	**0.08%**	0.07%	-

Despite the £521 million disposal of a previously acquired loan portfolio, net loans and advances increased by 3% to £14.7 billion (31 December 2018: £14.2 billion). The disposed portfolio was not considered a strategic asset, with its sale having no impact on our customer franchise given it was continually serviced by an external provider. Lending growth in the year was primarily driven by the ongoing support of our existing franchise and fulfilment of our committed pipeline at the end of 2018 flowing through during the first months of the year. As the year progressed, lending growth slowed as we proactively managed our loan to deposit ratio and looked to reduce our exposure to higher risk-density commercial lending following the RWA adjustment in January 2019. Commercial lending as a percentage of total lending reduced to 28% from 31% in 2018.

Our loan to deposit ratio increased during the first half of 2019 to 109% at 30 June 2019 from 91% at the end of 2018 following growth in customer loans. However, we made good progress in reducing the ratio in the second half of the year, supported by a return to deposit growth in the third and fourth quarters and management of lending volumes through upward adjustments to asset pricing.

Asset quality remained particularly robust in 2019 with cost of risk broadly remaining flat at 0.08% compared to 0.07% in the previous year. Non-performing loans increased to 0.53% from 0.15% in 2018 reflecting seasoning of the loan portfolio and a single name commercial exposure.

Income
Total underlying income decreased marginally year-on-year to £400.1 million from £404.1 million, reflecting a 3% reduction in interest earning assets to £20.3 billion and interest income pressure driven by sustained competition in the residential mortgage market, offset by a 43% increase in underlying net fee and other income. Interest expense increased to £188.1 million from £114.3 million and captures the full year expense of the £250 million subordinated Tier 2 notes issued in June 2018 and one quarter of interest on the £350 million senior non-preferred notes issued in October 2019. Cost of deposits has risen to an average of 78bps for full-year 2019, from 61bps in 2018 reflecting competitive pricing in retail fixed-term savings and absorption of the impact of the August 2018 Bank of England base rate rise.

The adoption of IFRS 16, the new leasing standard, also had an impact on net interest income through the recognition of an interest charge on the lease liability, partly offset by a reduction in lease expenses. The net effect was a c.£18 million reduction in revenue. Given growth in our store network and our relatively young lease portfolio, the impact is more pronounced for us compared with many of our peers.

The above trends resulted in a year-on-year reduction in our net interest margin ("NIM") to 1.51% from 1.81%.

NIM Reconciliation	Reconciliation
2018 Full Year Net Interest Margin	**181bps**
IFRS 16 adoption	7bps
Treasury assets (incl. disposal)	8bps
Lending yield	5bps
Cost of deposits	12bps
Debt cost	11bps
Loan-to-deposit ratio and other	13bps
2019 Full Year Net Interest Margin	**151bps**

The income impact from the reduction in NIM was partly offset by the strong growth in fee and commission income, up 43% year-on-year to £90 million (2018: £63 million) on the statutory basis. Non-interest income growth has been an area of focus for the bank throughout 2019, with the increase driven by optimisation of fee structures, strong growth in customer accounts and the introduction of new value-added products and services. Net fee and other income (excluding net gains on sale of assets) as a percentage of total revenue has increased to 24% from 16% in 2018. Given our strong focus on customer service and further expansion of our product offering for SMEs, we expect non-interest income to continue to grow in 2020.

Operating expenses

	2019 £'million	2018 £'million	Change
Depreciation and amortisation	**76.4**	45.1	69%
Total operating expense	**534.7**	355.5	50%
Total underlying expenses	**400.1**	346.1	16%
Statutory cost:income ratio	**129%**	88%	
Underlying cost:income ratio	**100%**	86%	

Underlying operating expenses grew by 16% during the year to £400.1 million. Given our focus on improving cost efficiency, the pace of cost growth slowed in the second half of 2019 to just 2% versus the first half. The increase in operating expenses primarily reflects the expansion of our store footprint driving higher people and occupancy costs and growth in regulation and technology costs.

Depreciation and amortisation grew to £76.4 million during 2019 (2018: £45.1 million) reflecting growth in the store network to 71 stores (2018: 65) and ongoing investment in IT and digital to support our integrated offering. The introduction of IFRS 16 lease accounting on 1 January 2019 also led to a depreciation charge on the right-of-use asset amounting to £16 million.

The underlying cost/income ratio increased to 100% in 2019 from 86% in 2018, driven by the income challenges outlined above. The bank-wide efficiency programme that is now embedded in the organisation will help to partially offset expected income pressure in 2020 by moderating the pace of operating expense growth.

The difference between underlying loss before tax of £11.7 million and statutory loss before tax of £130.8 million is driven by the write-down of certain intangible assets as well as costs relating to the bank-wide transformation programme and the remediation work undertaken following the RWA adjustment in January 2019 and work undertaken in relation a review of the bank's sanctions procedures. The RWA remediation programme is focused on improving risk-related internal systems, processes, controls and governance and is expected to be completed in 2020.

Stores
During 2019 we opened six stores, including the entry into new regions in the Midlands and the North. The opening in Manchester is the first to be delivered as part of our BCR commitments, and together with the new stores in the Birmingham area, represent an important phase of growth into SME hotspots outside of our existing geographical footprint.

At the year-end we had 71 stores and in early 2020 we opened in Wolverhampton, Cardiff and Hammersmith. Going forward we will maximise the existing estate and selectively expand in strategic locations. We will adapt the new store formats to fit the communities that we will be serving, often with smaller sites, yet retaining the exceptional levels of service our customers expect.

Taxation
During 2019 we made a total tax contribution of £123.1 million (2018: £120.3 million), which comprised £78.2 million (2018:£78.4 million) of taxes we paid and a further £44.9 million (2018: £41.9 million) of taxes we collected.

Taxes paid	2019	2018
Corporation tax	1.6%	4.6%
Business rates	12.9%	11.5%
Land transaction tax	3.3%	6.3%
Employer NICs	20.6%	18.7%
Irrecoverable VAT and Customs duty	61.3%	58.8%
Other	0.3%	0.1%
Total taxes paid	**£78.2m**	**£78.4m**

Taxes collected on behalf of HMRC	2019	2018
Employee NICs	23.6%	22.3%
PAYE	62.1%	61.2%
Net VAT	14.3%	15.4%
Other	-	1.1%
Total taxes paid	**£44.9m**	**£41.9m**

In 2019 our tax expense recognised in the income statement was £51.8 million (2018: £13.5 million). This primarily relates to the derecognition of the deferred tax asset for unused tax losses. This is an accounting non-cash item and does not impact our regulatory capital or liquidity. The derecognition reflects the impact on our short-term results of the investment announced as part of our strategy. Our effective tax rate for the year was (39.5%) (2018: 33.2%).

Capital

We have maintained a robust capital position throughout 2019, supported by the £375 million equity capital raise in May 2019 and a slowdown in the pace of RWA growth, up 2% to £9.2 billion. Although the January 2019 adoption of IFRS 16 and RWA adjustment resulted in one-off capital impacts, our CET1 ratio remained above both our 12.0% minimum target and our 10.6% minimum regulatory requirement. Our 15.6% CET1 ratio and 18.3% total capital ratio demonstrate the strength of our capital position and provide headroom for controlled growth and the delivery of our strategy.

	Reconciliation
Total capital ratio at 31 December 2018	**15.9%**
IFRS16 Adoption (capital charge against new right of use assets)	(0.5%)
Annual operational risk increment	(0.3%)
Organic Lending Growth	(0.4%)
Profit & Loss Account	(0.7%)
Investment in Intangibles and other	(0.6%)
Asset Disposals	1.0%
2019 Equity Raise	3.9%
Total capital ratio at 31 December 2019	**18.3%**
Senior unsecured debt (issued October 2019)	3.8%
Total capital plus MREL ratio at 31 December 2019	**22.1%**

The senior non-preferred debt issuance in October 2019 ensured compliance with our interim MREL requirement of 18% of RWAs plus 3.5% regulatory buffers, with the bank closing 2019 with a total capital plus MREL ratio of 22.1%.

Other regulatory developments include the announcement in December 2019 by the bank of England of a change in the countercyclical capital buffer ("CCyB") to 2.00% from 1.00% currently, which is binding from 16 December 2020. Reflecting the additional resilience associated with higher macroprudential buffers, the PRA has said that it will consult banks on the potential reduction on variable capital requirements in order to leave overall loss-absorbing capacity (capital plus bail-inable debt) requirements broadly unchanged.

	2019 £'million	2018 **£'million**
CET1 capital	**1,427**	1,171
Risk-weighted assets ("RWAs")	**9,147**	8,936
CET1 ratio	**15.6%**	13.1%
Total regulatory capital ratio	**18.3%**	15.9%
Total regulatory capital plus MREL ratio	**22.1%**	N/A
Regulatory leverage ratio	**6.6%**	5.4%
Leverage	**8.3%**	6.4%

Looking ahead

	FY2020	FY 2024	
	Guidance	**Targets**	**Guidance**
Deposits	• Mid-single digit growth	• <10% deposit CAGR 2020-2024 • <100% loan to deposit ratio	• Cost of deposits to reduce over time as the mix of current accounts increases
Revenue	• NIM in line with Q4 2019	• NIM expansion vs FY 2019 • Fee and other income to increase as proportion of revenue mix • 15-30 bps cost of risk	• Target lending mix (75% mortgages, 20% SME and 5% unsecured)
Operating Costs	• Mid-high-single digit growth excluding investment opex	• New investment spend £250-£300m opex (excluding depreciation and amortisation) and c.£100m capex by 2024, front-end loaded • Cost income ratio 70-75% by 2024 (incl. new investment spend, amortisation and depreciation)	• 'Run the bank' cost low single digit CAGR 2020-2024
Capital	• CET1 ratio >12%	• Minimum 12% CET1 and >22.5% Total Capital plus MREL • Up to £500m of MREL issuance before 1 Jan 2022	• Additional MREL issuance post Jan 2022 in line with regulatory requirements
Returns		• >8.5% statutory RoTE by FY2024	• Conservative target prudently excludes impact of AIRB approval

The statements above were authorised by the Board for issue on 26 February 2020.

CONSOLIDATED CONDENSED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	**Year ended 31 December 2019 £'million**	Year ended 31 December 2018 £'million
Interest income	2	**496.2**	444.4
Interest expense	2	**(188.1)**	(114.3)
Net interest income		**308.1**	330.1
Fee and commission income		**67.4**	42.5
Fee and commission expense		**(6.4)**	(4.9)
Net fee and commission income		**61.0**	37.6
Net gains on sale of assets		**1.6**	10.7
Other income		**44.9**	25.7
Total income		**415.6**	404.1
General operating expenses		**(380.6)**	(305.6)
Depreciation and amortisation	8, 9	**(76.4)**	(45.1)
Impairment and write-off of property, plant, equipment and intangible assets	8, 9	**(77.7)**	(4.8)
Total operating expenses		**(534.7)**	(355.5)
Expected credit loss expense		**(11.7)**	(8.0)
(Loss)/profit before tax		**(130.8)**	40.6
Taxation	3	**(51.8)**	(13.5)
(Loss)/profit for the year		**(182.6)**	27.1
Other comprehensive expense for the year			
Items which will be reclassified subsequently to profit or loss:			
Movement in respect of investment securities held at fair value through other comprehensive income (net of tax):			
– changes in fair value		**2.7**	(2.4)
– fair value changes transferred to the income statement on disposal		**(2.4)**	(1.5)
Total other comprehensive income/(expense)		**0.3**	(3.9)
Total comprehensive (loss)/profit for the year		**(182.3)**	23.2
Earnings per share			
Basic (pence)	13	**(123.9)**	29.1
Diluted (pence)	13	**(123.9)**	28.2

CONSOLIDATED CONDENSED BALANCE SHEET

AS AT 31 DECEMBER 2019

	Notes	**31 December 2019 £'million**	31 December 2018 £'million
Assets			
Cash and balances with the bank of England	5	**2,989**	2,472
Loans and advances to customers	6	**14,681**	14,235
Investment securities held at fair value through other comprehensive income ("FVOCI")	7	**411**	674
Investment securities held at amortised cost	7	**2,154**	3,458
Property, plant and equipment	8	**856**	454
Intangible assets	9	**168**	197
Prepayments and accrued income		**66**	66
Deferred tax asset	3	**-**	41
Other assets		**75**	50
Total assets		**21,400**	21,647
Liabilities			
Deposits from customers		**14,477**	15,661
Deposits from central banks		**3,801**	3,801
Debt securities		**591**	249
Repurchase agreements		**250**	344
Derivative financial liabilities		**8**	1
Lease liabilities	14	**341**	–
Deferred grant	10	**50**	–
Provisions		**17**	2
Deferred tax liability	3	**15**	–
Other liabilities		**267**	186
Total liabilities		**19,817**	20,244
Equity			
Called-up share capital	11	–	–
Share premium	11	**1,964**	1,605
Retained earnings		**(392)**	(209)
Other reserves		**11**	7
Total equity		**1,583**	1,403
Total equity and liabilities		**21,400**	21,647

CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Called-up share capital £'million	Share premium £'million	Retained earnings £'million	FVOCI reserve £'million	Share option reserve £'million	Total equity £'million
Balance as at 1 January 2019	**–**	**1,605**	**(209)**	**(3)**	**10**	**1,403**
Net loss for the year	**–**	**–**	**(183)**	**–**	**–**	**(183)**
Other comprehensive income (net of tax) relating to investment securities designated at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive loss	**–**	**–**	**(183)**	**–**	**–**	**(183)**
Shares issued	**–**	**375**	**–**	**–**	**–**	**375**
Cost of shares issued	**–**	**(16)**	**–**	**–**	**–**	**(16)**
Net share option movements	**–**	**–**	**–**	**–**	**4**	**4**
Balance as at 31 December 2019	**–**	**1,964**	**(392)**	**(3)**	**14**	**1,583**
Balance as at 1 January 2018	–	1,304	(236)	1	16	1,085
Net profit for the year	–	–	27	–	–	27
Other comprehensive expense (net of tax) relating to investment securities designated at fair value through other comprehensive income	–	–	–	(4)	–	(4)
Total comprehensive income	–	–	27	(4)	–	23
Shares issued	–	304	–	–	–	304
Cost of shares issued	–	(3)	–	–	–	(3)
Net share option movements	–	–	–	–	(6)	(6)
Balance as at 31 December 2018	–	1,605	(209)	(3)	10	1,403
Notes	11	11				

CONSOLIDATED CONDENSED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	**Year ended 31 December 2019 £'million**	Year ended 31 December 2018 £'million
Reconciliation of (loss)/profit before tax to net cash flows from operating activities:			
(Loss)/profit before tax		**(131)**	41
Adjustments for:			
Impairment and write-off of property, plant, equipment and intangible assets	8, 9	**78**	5
Interest on lease liabilities		**18**	–
Depreciation and amortisation	8, 9	**76**	45
Share option charge		**4**	5
Grant income recognised in income statement		**(16)**	–
Amounts provided for		**12**	–
Gain on sale of assets and fair value gains on derivatives		**(2)**	(11)
Accrued interest on and amortisation of investment securities		**(8)**	(7)
Changes in operating assets and liabilities			
Changes in loans and advances to customers		**(445)**	(4,615)
Changes in deposits from customers		**(1,184)**	3,992
Changes in other operating assets		**(26)**	(36)
Changes in other operating liabilities		**(31)**	734
Net cash (outflows)/inflows from operating activities		**(1,655)**	153
Cash flows from investing activities			
Sales of investment securities		**2,193**	1,522
Purchase of investment securities		**(618)**	(1,740)
Purchase of property, plant and equipment	8	**(120)**	(150)
Purchase and development of intangible assets	9	**(79)**	(75)
Net cash inflows/(outflows) from investing activities		**1,376**	(443)
Cash flows from financing activities			
Shares issued	11	**375**	304
Cost of shares issued	11	**(16)**	(3)
Debt securities issued		**350**	250
Cost of debt securities issued		**(8)**	(1)
Grant received		**120**	–
Repayment of capital element of leases		**(25)**	–
Net cash inflows from financing activities		**796**	550
Net increase in cash and cash equivalents		**517**	260
Cash and cash equivalents at start of year	5	**2,472**	2,212
Cash and cash equivalents at end of year	5	**2,989**	2,472

NOTES

1. Basis of preparation and significant accounting policies

Basis of preparation

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU, the IFRS Interpretations Committee ("IFRS IC") and the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements are prepared on a going concern basis as the Directors are satisfied that the Group has the resources to continue in business for the foreseeable future.

Changes in accounting policy and disclosures

The accounting policies and methods of computation are consistent with those applied and disclosed in the Group's 2018 Annual Report and Accounts other than changes owing to the adoption of IFRS 16 'leases'. Where disclosures have been amended as a result of the adoption of IFRS 16, the updated policy has been included within these preliminary results.

IFRS 16 'leases'

On 1 January 2019 the Group adopted IFRS 16. IFRS 16 provides guidance on the classification, recognition and measurement of leases to help provide useful information to the users of financial statements. IFRS 16 replaces IAS 17 'leases' and provides a single lessee accounting model, requiring lessees to recognise right of use ("RoU") assets and lease liabilities for all applicable leases, with operating leases thus being brought onto the face of the balance sheet.

Transition approach

The Group adopted IFRS 16 on the modified retrospective basis and as such the comparators within these financial statements have not been restated and continue to be presented under IAS 17. The Group elected to adopt IFRS 16 using the modified retrospective basis as this prevents an opening adjustment to equity and as such maintained the Group's CET1 capital upon transition.

On adoption of the standard on 1 January 2019, the Group recognised lease liabilities for operating leases of £328 million. The Group elected the transitional option to set the RoU asset equal to the related lease liability for all leases as at 1 January 2019 and therefore there was no opening adjustment to retained earnings. The total amount of RoU asset recognised on 1 January was £313 million, this differs to the opening lease liability due to adjustments being made for the amounts accrued in respect of rent free periods and any prepaid rentals as at the point of transition.

Key estimates

The only key estimate made at the point of transition was the discount rate used to measure lease liabilities. Under IFRS 16 lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Due to the interest rate implicit in the lease not being readily determinable for any leases at transition the Group's incremental cost of borrowing was used. The weighted average discount rate at transition was 5.5% and was determined by reference to the rate that the Group would be able to borrow in the market for similar assets on a similar basis (i.e. secured) and over a similar time period. The table below shows what the impact would have been on the opening lease liability had the discount rate been one per cent higher or lower.

	Decrease in weighted average discount rate to 4.5% £'million	Increase in weighted average discount rate to 6.5% £'million
Lease liability at 1 January 2019	357	303

Key judgements

A key judgement was made in regards to whether the Group will exercise any breaks contained within its leases as this has a significant impact on the measurement of the lease liability. The majority of the Group's leases are around 25 years in length and a proportion of these have break clauses part way through. At transition it has been assumed all leases will be retained for their full term, unless there is a specific plan to vacate the site at an early break point in which case the lease term is deemed to be the period up until that point. This is consistent with the period of time over which leasehold improvements are depreciated over.

Practical expedients

The available practical expedients of exempting leases with a short life (less than 12 months) or low value (less than £5,000) on an ongoing basis has been applied. These leases will continue to be recognised on a straight line basis over the lease term and in total are immaterial to the Group. As a result, the key leases to which the full requirements of IFRS

16 have been applied are property leases of stores and head office sites. At transition there were no leases of 12 months or less (or any longer term leases in their final year) other than those that had a value of below £5,000. The total value of low lease assets at transition was immaterial.

Impact on the financial statements

Due to the Group's young age coupled with its store opening profile over recent years, the vast majority of leases remain in the first half of their terms, with an average remaining lease length of 20 years. The Group's current business model will also see it continue to open stores in the years ahead, albeit at a slower pace, leading to an expanding lease portfolio. These two factors led to higher charges recognised in the income statement in the near term when compared to IAS 17, reflecting a different profile of cost recognition under each standard. Charges under IFRS 16 are front loaded in the earlier years of a lease compared to IAS 17 which requires lease expenses to be recognised on a straight line basis.

Net interest margin ("NIM") is reduced by the adoption of IFRS 16 since the rental expense (part of operating expenses) under IAS 17 will be replaced by a depreciation and an interest expense charge. The interest expense is recognised within NIM, thus reducing it on an ongoing basis.

As stated above IFRS 16 has been adopted on a modified retrospective basis and as such there is no adjustment to equity upon transition. A new RoU asset and lease liability are included on the balance sheet. The addition of the RoU asset has had an impact on regulatory capital as this has a 100% risk weighting, compared to no risk weighting when these were held off balance sheet under IAS 17.

The table below reconciles the undiscounted lease commitments as at 31 December 2019 to the opening lease liability and RoU recognised under IFRS 16 on 1 January 2019.

	£'million
Total undiscounted lease commitments at 31 December 2018 (See note 14)	659
Exclusion of VAT from lease liability	(116)
Discounting at a weighted average rate of 5.5%	(215)
Lease liability included in the statement of financial position at 1 January 2019	**328**
Less amounts previously recognised in respect of prepaid rentals and rent free periods	(15)
Right of use asset included in the statement of financial position at 1 January 2019	**313**

Accounting policy

The updated accounting policy relating to leases can be found within note 14.

2. Net interest income

Interest income

	2019 £'million	2018 £'million
Cash and balances held with the bank of England	**17.0**	11.2
Loans and advances to customers	**435.0**	365.2
Investment securities held at amortised cost	**40.6**	57.7
Investment securities held at FVOCI	**3.6**	10.3
Total interest income	**496.2**	444.4

Interest expense

	2019 £'million	2018 £'million
Deposits from customers	**112.4**	83.7
Deposits from central banks	**28.5**	22.7
Lease liabilities	**17.7**	-
Debt securities	**22.1**	7.2
Repurchase agreements	**7.4**	0.7
Total interest expense	**188.1**	114.3

3. Taxation

Tax expense

The components of the tax expense for the year are:

	2019 £'million	2018 £'million
Current tax		
Current tax	**3.5**	(2.8)
Adjustment in respect of prior years	**(0.3)**	(0.7)
Total current tax expense	**3.2**	(3.5)
Deferred tax		
Origination and reversal of temporary differences	**(52.0)**	(9.8)
Effect of changes in tax rates	**(2.8)**	(0.7)
Adjustment in respect of prior years	**(0.2)**	0.5
Total deferred tax expense	**(55.0)**	(10.0)
Total tax expense	**(51.8)**	(13.5)

Reconciliation of the total tax expense
The tax expense shown in the income statement differs from the tax expense that would apply if all accounting profits had been taxed at the UK corporation tax rate.

A reconciliation between the tax expense and the accounting profit multiplied by the UK corporation tax rate is as follows:

	2019 £'million	**Effective tax rate %**	2018 £'million	Effective tax rate %
Accounting (loss)/profit before tax	**(130.8)**		40.6	
Tax expense at statutory tax rate of 19% (2018: 19%)	**24.9**	**19.0%**	(7.7)	19.0%
Tax effects of:				
Non-deductible expenses - depreciation on non-qualifying fixed assets	**(3.0)**	**(2.3%)**	(2.6)	6.4%
Non-deductible expenses - investment property impairment	**(1.1)**	**(0.9%)**	(0.5)	1.2%
Non-deductible expenses - remediation	**(4.4)**	**(3.3%)**	-	-
Non-deductible expenses - other	**(0.7)**	**(0.5%)**	(0.6)	1.4%
Impact of intangible asset impairment on R&D deferred tax liability	**1.8**	**1.4%**	-	-
Share based payments	**(1.9)**	**(1.5%)**	(1.3)	3.1%
Adjustment in respect of prior years	**(0.5)**	**(0.3%)**	(0.2)	0.5%
Current year losses for which no deferred tax asset has been recognised	**(11.4)**	**(8.7%)**	-	-
Derecognition of tax losses arising in prior years	**(52.7)**	**(40.2%)**	-	-
Effect of changes in tax rates	**(2.8)**	**(2.2%)**	(0.6)	1.5%
Tax expense reported in the consolidated income statement	**(51.8)**	**(39.5%)**	(13.5)	33.2%

The effective tax rate for the year is (39.5%) (2018: 33.2%). The main reasons for this, in addition to the reported accounting loss before tax for the year (2018: accounting profit before tax), are set out below:

Impact of Intangible Asset Impairment on R&D
During the year the Group impaired £68m of Intangible assets. This relates to the discontinuation of certain work-in-progress or older IT projects that do not form part of the Group's revised strategy. As some of these assets had previously qualified for R&D tax relief the R&D deferred tax liability has been adjusted to reflect this.

Share based payments
During the period the Group's share price fell from £16.94 to £2.02. This had the impact of reducing the deferred tax asset held for share options and contributed £1.2m to the deferred tax charge.

Derecognition of tax losses carried forward
The Group has derecognised the deferred tax asset arising in prior years due to the expected impact on its forecast short term results of the investment in cost, revenue and infrastructure transformation. The losses will remain available for offset in the future and recognition will be revaluated at future reporting periods.

Effect of changes in tax rates
This relate to the remeasurement of deferred tax due to rate changes.

Deferred tax

	Unused tax losses £'million	Investment securities and impairments £'million	Share-based payments £'million	Property, plant and equipment £'million	Intangible assets £'million	Total £'million
2019						
Deferred tax assets	**–**	**6**	**–**	**–**	**–**	**6**
Deferred tax liabilities	**–**	**(2)**	**–**	**(15)**	**(4)**	**(21)**
Deferred tax liabilities (net)	**–**	**4**	**–**	**(15)**	**(4)**	**(15)**
At 1 January 2019	**53**	**5**	**1**	**(11)**	**(7)**	**41**
Income statement	**(53)**	**(1)**	**(1)**	**(4)**	**3**	**(56)**
At 31 December 2019	**–**	**4**	**–**	**(15)**	**(4)**	**(15)**

	Unused tax losses £'million	Investment securities and impairments £'million	Share-based payments £'million	Property, plant and equipment £'million	Intangible assets £'million	Total £'million
2018						
Deferred tax assets	53	7	1	–	–	61
Deferred tax liabilities	–	(2)	–	(11)	(7)	(20)
Deferred tax assets (net)	53	5	1	(11)	(7)	41
At 1 January 2018	57	4	11	(8)	(6)	58
Income statement	(4)	(1)	(1)	(3)	(1)	(10)
Other comprehensive income	–	2	–	–	–	2
Equity	–	–	(9)	–	–	(9)
At 31 December 2018	53	5	1	(11)	(7)	41

4. Financial instruments

The Group's financial instruments primarily comprise customer deposits, loans and advances to customers, cash and balances with the bank of England and investment securities, all of which arise as a result of normal operations.

The main financial risks arising from financial instruments are credit risk, liquidity risk and market risks (price and interest rate risk).

The financial instruments the Group holds are simple in nature and no significant judgments have been made relating to the classification of financial instruments under IFRS 9.

5. Cash and balances with the bank of England

	31 December 2019 £'million	31 December 2018 £'million
Unrestricted balances with the bank of England	**2,751**	2,242
Cash and unrestricted balances with other banks	**178**	230
Money market placements	**60**	–
Total cash and balances with the bank of England[9]	**2,989**	2,472

9. Balances held at other financial institutions have been reclassified during the year as cash, rather than as loans and advances to banks to better reflect the unrestricted nature of these balances.

6. Loans and advances to customers

	31 December 2019		
	Gross carrying amount £'million	**ECL allowance £'million**	**Net carrying amount £'million**
Consumer lending	**233**	**(13)**	**220**
Retail mortgages	**10,430**	**(8)**	**10,422**
Commercial lending	**4,052**	**(13)**	**4,039**
Total loans and advances to customers	**14,715**	**(34)**	**14,681**

	31 December 2018		
	Gross carrying amount £'million	**ECL allowance £'million**	**Net carrying amount £'million**
Consumer lending	288	(9)	279
Retail mortgages	9,625	(11)	9,614
Commercial lending	4,356	(14)	4,342
Total loans and advances to customers	14,269	(34)	14,235

Further information on the movements in gross carrying amounts and ECL can be found in note 12. An analysis of the gross loans and advances by product category is set out below:

	31 December 2019 £'million	31 December 2018 £'million
Overdrafts	**77**	70
Credit cards	**11**	11
Term loans	**145**	207
Total consumer lending	**233**	288
Residential owner occupied	**8,493**	7,351
Retail buy-to-let	**1,937**	2,274
Total retail mortgages	**10,430**	9,625
Total retail lending	**10,663**	9,913
Term loans (exc. professional buy-to-let)	**2,327**	2,448

Professional buy-to-let	**1,219**	1,380
Total commercial term lending	**3,546**	3,828
Overdrafts and revolving credit facilities	**202**	226
Credit cards	**3**	3
Asset and invoice finance	**301**	299
Total commercial lending	**4,052**	4,356
Gross loans and advances to customers	**14,715**	14,269

7. Investment securities

	31 December 2019 £'million	31 December 2018 £'million
Fair value through other comprehensive income ("FVOCI")	**411**	674
Amortised cost	**2,154**	3,458
Total investment securities	**2,565**	4,132

Fair value through other comprehensive income

	31 December 2019 £'million	31 December 2018 £'million
Sovereign bonds	**283**	351
Residential mortgage backed securities	**–**	64
Covered bonds	**128**	104
Corporate bonds	**–**	155
Total investment securities held at FVOCI	**411**	674

Amortised cost

	31 December 2019 £'million	31 December 2018 £'million
Sovereign bonds	**61**	58
Residential mortgage backed securities	**1,752**	2,997
Covered bonds	**341**	403
Total investment securities held at amortised cost	**2,154**	3,458

8. Property, plant and equipment

Accounting policy

Policy applicable from 1 January 2019

Property plant and equipment
The Group's property, plant and equipment primarily consists of investments and improvements in its store network and is stated at cost less accumulated depreciation and any recognised impairment.

Property, plant and equipment is depreciated on a straight-line basis to its residual value using the following useful economic lives:

Leasehold improvements	Lower of the remaining life of the lease or the useful life of the asset
Freehold land	Not depreciated
Buildings	Up to 50 years
Fixtures, fittings and equipment	5 years
IT hardware	3 to 5 years

Depreciation rates, methods and the residual values underlying the calculation of depreciation of items of property, plant and equipment are kept under review to take account of any change in circumstances.

All items of property, plant and equipment are reviewed at least annually for indicators of impairment.

Right of use assets
Upon the recognition of a lease liability (see note 14 for further details) a corresponding right of use ("RoU") asset is recognised. This is adjusted for any initial direct costs incurred, lease incentives paid or received and any restoration costs at the end of the lease (where applicable).

The RoU asset is depreciated on a straight line basis over the life of the lease.

All right of use assets are reviewed at least annually for indicators of impairment.

Investment property
Investment property is also stated at cost less accumulated depreciation and any recognised impairment. Depreciation is calculated on a consistent basis with that applied to land and buildings as disclosed in the table above.

	Investment property £'million	Leasehold improvements £'million	Freehold land and buildings £'million	Fixtures, fittings and equipment £'million	IT hardware £'million	Right of use assets relating to leased stores and offices £'million	Total £'million
Cost							
31 December 2018	**10**	**275**	**199**	**33**	**39**	**n/a**	**556**
IFRS 16 transition adjustment	**–**	**–**	**–**	**–**	**–**	**313**	**313**
1 January 2019	**10**	**275**	**199**	**33**	**39**	**313**	**869**
Additions	**–**	**51**	**62**	**5**	**2**	**26**	**146**
Disposals	**–**	**–**	**–**	**–**	**–**	**(7)**	**(7)**
Write-offs	**–**	**(3)**	**–**	**(12)**	**(31)**	**–**	**(46)**
Transfers	**8**	**(9)**	**1**	**–**	**–**	**–**	**–**
31 December 2019	**18**	**314**	**262**	**26**	**10**	**332**	**962**
Accumulated depreciation							
31 December 2018	**3**	**39**	**9**	**18**	**33**	**n/a**	**102**
IFRS 16 transition adjustment	**–**	**–**	**–**	**–**	**–**	**–**	**–**
1 January 2019	**3**	**39**	**9**	**18**	**33**	**–**	**102**
Charge for the year	**–**	**11**	**4**	**6**	**3**	**16**	**40**
Impairments	**7**	**–**	**–**	**–**	**–**	**–**	**7**
Write-offs	**–**	**–**	**–**	**(12)**	**(31)**	**–**	**(43)**
Transfers	**–**	**(1)**	**1**	**–**	**–**	**–**	**–**
31 December 2019	**10**	**49**	**14**	**12**	**5**	**16**	**106**
Net book value	**8**	**265**	**248**	**14**	**5**	**316**	**856**

Investment property primarily consists of shops and offices which are located within the same buildings as some of the Group's stores, where it has acquired the freehold interest. In addition it consists of a store initially purchased for the Group's own use which is no longer felt suitable for a site in its current form and is currently being retained to generate rental income. At 31 December 2019 the Group's investment property had a fair value of £7 million (31 December 2018: £7 million). The fair value has been provided by a qualified independent valuer.

	Investment property £'million	Leasehold improvements £'million	Freehold land and buildings £'million	Fixtures, fittings and equipment £'million	IT hardware £'million	Total £'million
Cost						
1 January 2018	11	198	136	26	35	406
Additions	–	80	59	7	4	150
Transfers	(1)	(3)	4	–	–	–
31 December 2018	10	275	199	33	39	556
Accumulated depreciation						
1 January 2018	–	29	6	14	29	78
Impairments	3	1	–	–	–	4
Charge for the year	–	10	2	4	4	20
Transfers	–	(1)	1	–	–	–
31 December 2018	3	39	9	18	33	102
Net book value	7	236	190	15	6	454

Write-offs
Write-offs in the year consisted of pipeline sites which were abandoned as part of the change in the Group's strategy; these sites were no longer felt to be in suitable locations or formats. In addition it included a number of fixtures, fittings and equipment and IT hardware with a nil book value which are no longer being used.

Transfers
Transfers represent costs associated with the improvements made to previously leased stores which have been purchased. These stores were purchased where there was a strong commercial rationale for doing so. Following the introduction of IFRS 16 the capital impact of such purchases is considerably less than previously under IAS 17 and gaining ownership provides greater flexibility over the site in the future.

Additionally, during the year an acquired freehold site was transferred from freehold land and buildings to investment property. The site was originally acquired with the intent of converting into a store, however the change in the Group's strategy has meant this course of action is no longer felt suitable. Given there is no intention in the short to medium term to convert this site into a store the decision was made to continue letting the property, and the property is considered an investment property.

9. Intangible assets

	Goodwill £'million	Customer contracts £'million	Software £'million	Total £'million
Cost				
1 January 2019	**4**	**1**	**249**	**254**
Additions	**–**	**–**	**79**	**79**
Write-offs	**–**	**(1)**	**(100)**	**(101)**
Deferred grant (see note 10)	**–**	**–**	**(4)**	**(4)**
31 December 2019	**4**	**–**	**224**	**228**
Amortisation				
1 January 2019	**–**	**1**	**56**	**57**
Charge for the year	**–**	**–**	**36**	**36**
Write-offs	**–**	**(1)**	**(32)**	**(33)**
31 December 2019	**–**	**–**	**60**	**60**
Net book value	**4**	**–**	**164**	**168**

	Goodwill £'million	Customer contracts £'million	Software £'million	Total £'million
Cost				
1 January 2018	4	1	174	179
Additions	–	–	75	75
31 December 2018	4	1	249	254
Amortisation				
1 January 2018	–	1	30	31
Impairments	–	–	1	1
Charge for the year	–	–	25	25
31 December 2018	–	1	56	57
Net book value	4	–	193	197

Write-offs
The write-offs in year consisted primarily of software and applications that were work in progress that have been abandoned owing to the change in the Group's strategy.

Goodwill
Goodwill is tested for any impairment on an annual basis. All of the £4 million (31 December 2018: £4 million) goodwill has been allocated to the Group's asset and invoice finance business. This business was previously acquired and is considered a standalone cash-generating unit. The recoverable amount of the cash-generating unit, determined using the value-in-use basis, was found to be in excess of its carrying amount and as such no impairment to goodwill was required.

10. Deferred grants

Accounting policy	Grants are recognised where there is reasonable assurance that the Group will both receive the grant and will be able to comply with all the attached conditions. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised directly against the cost of the asset.

	2019 £'million	2018 £'million
1 January	**–**	–
Grants received	**120**	–
Released to the income statement	**(16)**	–
Offset against capital expenditure (see note 9)	**(4)**	–
Element of grant awaiting repayment	**(50)**	–
31 December	**50**	–

On 22 February 2019 the Group was awarded £120 million from the Capability & Innovation fund (part of the RBS alternative remedies package).

Following changes to the Group's strategy a revised business case was submitted to the BCR (the awarding body). The proposals put forward were accepted by BCR on 25 February 2020 as part of which the public commitments attached to the grant were amended. As part of this it was agreed that £50 million of the grant will be returned to BCR. As disclosed in note 17 the acceptance of the Group's proposal by BCR post year-end is considered an adjusting event and as such the £50 million to be repaid is classified as a liability as at 31 December 2019. All of the sums recognised to date, either in the income statement or offset against capital expenditure, are still components of the revised commitments and as such no adjustments to these amounts has been made.

11. Called-up share capital

The Group has a single class of shares. As at 31 December 2019 172.4 million ordinary shares of 0.0001p (31 December 2018: 97.4 million) were authorised and in issue.

In May 2019 the Group issued 75.0 million of ordinary shares for consideration of £375 million. Associated costs of £16 million have been offset against the amount raised.

Called-up ordinary share capital, issued and fully paid
The called-up share capital reserve is used to record the nominal share capital. At the 31 December 2019 the Group's called up share capital was £172.42 (31 December 2018: £97.40)

	2019 £'million	2018 £'million
1 January	**–**	–
Issued	**–**	–
31 December	**–**	–

Share premium
The share premium reserve is used to record the excess consideration of any shares issued over the nominal share value.

	2019 £'million	2018 £'million
1 January	**1,605**	1,304
Issued	**375**	304
Costs of shares issued	**(16)**	(3)
31 December	**1,964**	1,605

12. Credit Risk

Retail mortgage lending

The table below stratifies credit exposures from retail mortgages by ranges of debt-to-value ("DTV") ratio. The average DTV of the retail mortgage loan book is 59% (2018: 61%).

	31 December 2019 £'million			31 December 2018 £'million		
	Retail owner occupied	**Retail buy-to-let**	**Total retail mortgages**	Retail owner occupied	Retail buy-to-let	Total retail mortgages
DTV ratio						
Less than 50%	**2,647**	**464**	**3,111**	2,124	458	2,582
51–60%	**1,383**	**393**	**1,776**	1,195	493	1,688
61–70%	**1,422**	**505**	**1,927**	1,374	553	1,927
71–80%	**1,813**	**554**	**2,367**	1,362	596	1,958
81–90%	**1,201**	**13**	**1,214**	1,205	129	1,334
91–100%	**23**	**–**	**23**	80	33	113
More than 100%	**4**	**8**	**12**	11	12	23
Total retail mortgage lending	**8,493**	**1,937**	**10,430**	7,351	2,274	9,625

A geographic analysis of the location of retail mortgage collateral is set out below:

	31 December 2019 £'million			31 December 2018 £'million		
	Retail owner occupied	**Retail buy-to-let**	**Total retail mortgages**	Retail owner occupied	Retail buy-to-let	Total retail mortgages
Region						
Greater London	**3,424**	**1,197**	**4,621**	3,034	1,231	4,265
South east	**2,094**	**337**	**2,431**	1,797	383	2,180
South west	**738**	**97**	**835**	616	122	738
East of England	**570**	**76**	**646**	492	91	583
North west	**482**	**66**	**548**	405	138	543
West Midlands	**340**	**62**	**402**	293	81	374
Yorkshire and the Humber	**275**	**37**	**312**	207	73	280
East Midlands	**243**	**26**	**269**	241	57	298
Wales	**169**	**21**	**190**	141	36	177
North east	**93**	**11**	**104**	83	31	114
Northern Ireland	**–**	**–**	**–**	4	27	31
Scotland	**65**	**7**	**72**	38	4	42
Total retail mortgage lending	**8,493**	**1,937**	**10,430**	7,351	2,274	9,625

An analysis of the retail mortgage book by repayment type is set out below:

	31 December 2019 £'million			31 December 2018 £'million		
	Retail owner occupied	**Retail buy-to-let**	**Total retail mortgages**	Retail owner occupied	Retail buy-to-let	Total retail mortgages
Repayment						
Interest	**2,573**	**1,834**	**4,407**	2,242	2,166	4,408
Capital and interest	**5,920**	**103**	**6,023**	5,109	108	5,217
Total retail mortgage lending	**8,493**	**1,937**	**10,430**	7,351	2,274	9,625

Commercial lending

The table below stratifies credit exposures from commercial term loans by ranges of DTV. The average DTV of the commercial loan book is 60% (2018: 59%).

	31 December 2019 £'million	31 December 2018 £'million
DTV ratio		
Less than 50%	**1,274**	1,277
51–60%	**818**	936
61–70%	**747**	791
71–80%	**221**	249
81–90%	**41**	100
91–100%	**49**	51
More than 100%	**396**	424
Total commercial term lending	**3,546**	3,828

A geographic analysis by location of customers who hold commercial term loans is set out below:

	31 December 2019 £'million	31 December 2018 £'million
Region		
Greater London	**2,264**	2,465
South east	**648**	677
South west	**208**	229
East of England	**139**	151
North west	**136**	145
West Midlands	**60**	50
Yorkshire and the Humber	**37**	26
East Midlands	**17**	33
Wales	**14**	29
North east	**13**	16
Northern Ireland	**6**	3
Scotland	**4**	4
Total commercial term loans	**3,546**	3,828

An analysis of the commercial term loan book by repayment type is set out below:

	31 December 2019 £'million	31 December 2018 £'million
Repayment		
Interest	**1,483**	**1,592**
Capital and interest	**2,063**	**2,236**
Total commercial term loans	**3,546**	**3,828**

A sector analysis of the commercial term loan book is set out below:

	31 December 2019 £'million	31 December 2018 £'million
Industry sector		
Real estate (rent, buy and sell)	**2,374**	2,547
Legal, accountancy and consultancy	**236**	384
Health and social work	**263**	217
Hospitality	**308**	235
Real estate (management of)	**11**	72
Retail	**100**	99
Construction	**35**	60
Investment and unit trusts	**8**	1
Recreation, cultural and sport	**51**	19
Real estate (development)	**62**	52
Education	**30**	15
Other	**68**	127
Total commercial term loans	**3,546**	3,828

Credit risk exposures

Retail mortgages

	31 December 2019 £' million			
	Stage 1 12 month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**POCI Lifetime ECL**
Up to date	**9,873**	**449**	**16**	**–**
1 to 29 days past due	**1**	**21**	**4**	**–**
30 to 89 days past due	**–**	**32**	**10**	**–**
90+ days past due	**–**	**–**	**24**	**–**
Gross carrying amount	**9,874**	**502**	**54**	**–**

	31 December 2018 £' million			
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL
Up to date	9,242	275	19	2
1 to 29 days past due	3	14	4	1
30 to 89 days past due	–	47	7	1
90+ days past due	–	–	9	1
Gross carrying amount	9,245	336	39	5

Consumer lending

	31 December 2019 £' million			
	Stage 1 12 month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**POCI Lifetime ECL**
Up to date	**213**	**–**	**–**	–
1 to 29 days past due	**10**	**–**	**–**	–
30 to 89 days past due	**–**	**–**	**–**	–
90+ days past due	**–**	**–**	**10**	–
Gross carrying amount	**223**	**–**	**10**	–

	31 December 2018 £' million			
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL
Up to date	272	–	–	–
1 to 29 days past due	3	3	–	–
30 to 89 days past due	–	5	–	–
90+ days past due	–	–	5	–
Gross carrying amount	275	8	5	–

Commercial lending

	31 December 2019 £' million			
	Stage 1 12 month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**POCI Lifetime ECL**
Up to date	**3,900**	**–**	**7**	**–**
1 to 29 days past due	**29**	**18**	**4**	**–**
30 to 89 days past due	**–**	**54**	**9**	**–**
90+ days past due	**–**	**–**	**31**	**–**
Gross carrying amount	**3,929**	**72**	**51**	**–**

	31 December 2018 £' million			
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL
Up to date	4,213	6	2	–
1 to 29 days past due	52	44	–	–
30 to 89 days past due	–	27	5	–
90+ days past due	–	–	7	–
Gross carrying amount	4,265	77	14	–

Loss allowance

The following tables explain the changes in both the gross carrying amount and loss allowances of the Group's loans and advances during the period. Significant changes in the gross carrying amounts which contributed to changes in the loss allowance are explained below. Other movements consist of changes to model assumptions and forward looking information.

Retail mortgages

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	**Total**	Stage 1	Stage 2	Stage 3	POCI	**Total**	Stage 1	Stage 2	Stage 3	POCI	**Total**
1 January 2019	9,245	336	39	5	**9,625**	–	(5)	(4)	(2)	**(11)**	9,245	331	35	3	**9,614**
Transfers to/(from) stage 1[1]	169	(162)	(7)	–	–	(1)	1	–	–	**–**	168	(161)	(7)	–	–
Transfers to/(from) stage 2	(369)	370	(1)	–	–	–	–	–	–	–	(369)	370	(1)	–	–
Transfers to/(from) stage 3	(22)	(16)	38	–	–	–	–	–	–	–	(22)	(16)	38	–	–
Net remeasurement due to transfers[2]	–	–	–	–	–	1	(1)	(2)	–	**(2)**	1	(1)	(2)	–	**(2)**
New lending[3]	2,122	77	–	–	**2,199**	–	–	–	–	–	2,122	77	–	–	**2,199**
Repayments, additional drawdowns and interest accrued	(244)	(9)	(3)	–	**(256)**	–	–	–	–	**–**	(244)	(9)	(3)	–	**(256)**
Derecognitions[4]	(1,027)	(94)	(12)	(5)	**(1,138)**	–	2	2	2	**6**	(1,027)	(92)	(10)	(3)	**(1,132)**
Changes to model assumptions[5]	–	–	–	–	–	–	–	(1)	–	**(1)**	–	–	(1)	–	**(1)**
31 December 2019	**9,874**	**502**	**54**	–	**10,430**	**–**	**(3)**	**(5)**	–	**(8)**	**9,874**	**499**	**49**	**–**	**10,422**

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	**Total**	Stage 1	Stage 2	Stage 3	POCI	**Total**	Stage 1	Stage 2	Stage 3	POCI	**Total**
1 January 2018	6,065	129	33	4	6,231	(1)	(3)	(5)	(1)	(10)	6,064	126	28	3	6,221
Transfers to/(from) stage 1[1]	60	(52)	(8)	–	–	(1)	1	–	–	–	59	(51)	(8)	–	–
Transfers to/(from) stage 2	(222)	223	(1)	–	–	1	(1)	–	–	–	(221)	222	(1)	–	–
Transfers to/(from) stage 3	(16)	(7)	23	–	–	–	1	(1)	–	–	(16)	(6)	22	–	–
Net remeasurement due to transfers[2]	–	–	–	–	–	1	(2)	(1)	–	(2)	1	(2)	(1)	–	(2)
New lending[3]	3,933	76	3	2	4,014	(1)	(1)	–	–	(2)	3,932	75	3	2	4,012
Repayments, additional drawdowns and interest accrued	(151)	(7)	(1)	(1)	(160)	–	–	–	–	–	(151)	(7)	(1)	(1)	(160)
Derecognitions[4]	(424)	(26)	(10)	–	(460)	1	–	1	–	2	(423)	(26)	(9)	–	(458)
Changes to model assumptions[5]	–	–	–	–	–	–	–	2	(1)	1	–	–	2	(1)	1
31 December 2018	9,245	336	39	5	9,625	–	(5)	(4)	(2)	(11)	9,245	331	35	3	9,614

1. Represents stage transfers prior to any ECL remeasurements
2. Represents the remeasurement between the twelve month and lifetime ECL due to stage transfer
3. Represents the increase in balances resulting from loans and advances that have been newly originated, purchased or renewed.
4. Represents the decrease in balances resulting from loans and advances that have been fully repaid, disposed of or written off.
5. Represents the change in loss allowances resulting from changes to the model assumptions, forward looking information and changes in the customers risk profile

Consumer lending

£'million	Gross carrying amount					Loss allowance					Net carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	**Total**	Stage 1	Stage 2	Stage 3	POCI	**Total**	Stage 1	Stage 2	Stage 3	POCI	**Total**
1 January 2019	275	8	5	–	**288**	(3)	(3)	(3)	–	**(9)**	272	5	2	–	**279**
Transfers to/(from) stage 1	5	(5)	–	–	**–**	–	–	–	–	–	5	(5)	–	–	–
Transfers to/(from) stage 2	(1)	1	–	–	–	–	–	–	–	–	(1)	1	–	–	–
Transfers to/(from) stage 3	(3)	(3)	6	–	–	–	2	(2)	–	–	(3)	(1)	4	–	–
Net remeasurement due to transfers	–	–	–	–	–	–	–	(4)	–	**(4)**	–	–	(4)	–	**(4)**
New lending	39	–	–	–	**39**	–	–	–	–	–	39	–	–	–	**39**
Repayments, additional drawdowns and interest accrued	(37)	–	(1)	–	**(38)**	–	–	–	–	**–**	(37)	–	(1)	–	**(38)**
Derecognitions	(55)	(1)	–	–	**(56)**	–	–	–	–	**–**	(55)	(1)	–	–	**(56)**
Changes to model assumptions	–	–	–	–	**–**	–	–	–	–	**–**	–	–	–	–	**–**
31 December 2019	**223**	**–**	**10**	–	**233**	**(3)**	**(1)**	**(9)**	–	**(13)**	**220**	**(1)**	**1**	–	**220**

£'million	Gross carrying amount					Loss allowance					Net carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	**Total**	Stage 1	Stage 2	Stage 3	POCI	**Total**	Stage 1	Stage 2	Stage 3	POCI	**Total**
1 January 2018	191	20	6	–	217	(1)	(11)	(5)	–	(17)	190	9	1	–	200
Transfers to/(from) stage 1	2	(2)	–	–	–	–	–	–	–	–	2	(2)	–	–	–
Transfers to/(from) stage 2	(3)	3	–	–	–	–	–	–	–	–	(3)	3	–	–	–
Transfers to/(from) stage 3	(1)	(1)	2	–	–	–	–	–	–	–	(1)	(1)	2	–	–
Net remeasurement due to transfers	–	–	–	–	–	–	(1)	(1)	–	(2)	–	(1)	(1)	–	(2)
New lending	160	2	1	–	163	(2)	(1)	–	–	(3)	158	1	1	–	160
Repayments, additional drawdowns and interest accrued	(27)	(1)	–	–	(28)	–	–	–	–	–	(27)	(1)	–	–	(28)
Derecognitions	(47)	(13)	(4)	–	(64)	–	10	3	–	13	(47)	(3)	(1)	–	(51)
Changes to model assumptions	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
31 December 2018	275	8	5	–	288	(3)	(3)	(3)	–	(9)	272	5	2	–	279

Commercial lending

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	**Total**	Stage 1	Stage 2	Stage 3	POCI	**Total**	Stage 1	Stage 2	Stage 3	POCI	**Total**
1 January 2019	4,265	77	14	–	**4,356**	(6)	(3)	(5)	–	**(14)**	4,259	74	9	–	**4,342**
Transfers to/(from) stage 1	43	(43)	–	–	–	(1)	1	–	–	–	42	(42)	–	–	–
Transfers to/(from) stage 2	(64)	64	–	–	–	–	–	–	–	–	(64)	64	–	–	–
Transfers to/(from) stage 3	(17)	(9)	26	–	–	–	1	(1)	–	–	(17)	(8)	25	–	–
Net remeasurement due to transfers	–	–	–	–	**–**	1	(1)	(2)	–	**(2)**	1	(1)	(2)	–	**(2)**
New lending	513	2	15	–	**530**	(1)	–	(2)	–	**(3)**	512	2	13	–	**527**
Repayments, additional drawdowns and interest accrued	(203)	(3)	6	–	**(200)**	–	–	–	–	–	(203)	(3)	6	–	**(200)**
Derecognitions	(608)	(16)	(10)	–	**(634)**	–	–	3	–	**3**	(608)	(16)	(7)	–	**(631)**
Changes to model assumptions	–	–	–	–	**–**	1	1	1	–	**3**	1	1	1	–	**3**
31 December 2019	**3,929**	**72**	**51**	**–**	**4,052**	**(6)**	**(1)**	**(6)**	**–**	**(13)**	**3,923**	**71**	**45**	**–**	**4,039**

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	**Total**	Stage 1	Stage 2	Stage 3	POCI	**Total**	Stage 1	Stage 2	Stage 3	POCI	**Total**
1 January 2018	3,074	95	16	1	3,186	(5)	(1)	(3)	–	(9)	3,069	94	13	1	3,177
Transfers to/(from) stage 1	50	(50)	–	–	–	–	–	–	–	–	50	(50)	–	–	–
Transfers to/(from) stage 2	(53)	53	–	–	–	–	–	–	–	–	(53)	53	–	–	–
Transfers to/(from) stage 3	(6)	(4)	10	–	–	–	–	–	–	–	(6)	(4)	10	–	–
Net remeasurement due to transfers	–	–	–	–	–	–	(2)	(2)	–	(4)	–	(2)	(2)	–	(4)
New lending	1,654	10	1	–	1,665	(3)	–	–	–	(3)	1,651	10	1	–	1,662
Repayments, additional drawdowns and interest accrued	(120)	(7)	(4)	–	(131)	–	–	–	–	–	(120)	(7)	(4)	–	(131)
Derecognitions	(334)	(20)	(9)	(1)	(364)	–	–	1	–	1	(334)	(20)	(8)	(1)	(363)
Changes to model assumptions	–	–	–	–	–	2	–	(1)	–	1	2	–	(1)	–	1
31 December 2018	4,265	77	14	–	4,356	(6)	(3)	(5)	–	(14)	4,259	74	9	–	4,342

Non-performing loans

Non-performing loans are loans which have more than three instalments unpaid (90+ days past due) or where there is doubt a borrower can keep up with their repayments. All non-performing loans are included within Stage 3.

	31 December 2019		31 December 2018	
	Non-performing £'million	**Non-performing loans ratio**	Non-performing loans £'million	Non-performing loans ratio
Retail-residential mortgages	**25**	**0.24%**	9	0.09%
Retail-consumer and other	**10**	**4.30%**	5	1.74%
Commercial (including asset and invoice finance)	**42**	**1.12%**	7	0.16%
Total	**77**	**0.53%**	21	0.15%

Cost of risk

Cost of risk is credit impairment charges expressed as a percentage of average gross lending.

	2019	2018
Retail-residential mortgages	**0.00%**	0.01%
Retail-consumer and other	**1.92%**	1.54%
Commercial lending	**0.11%**	0.10%
Average cost of risk	**0.08%**	0.07%

13. Earnings per share

Basic earnings per share is calculated by dividing the (loss)/profit attributable to ordinary equity holders of Metro Bank by the weighted average number of ordinary shares in issue during the year.

	2019	2018
(Loss)/profit attributable to ordinary equity holders of Metro Bank (£'million)	**(182.6)**	27.1
Weighted average number of ordinary shares in issue – basic ("000)	**147,420**	92,964
Basic earnings per share (pence)	**(123.9)**	29.1

Diluted earnings per share has been calculated by dividing the (loss)/profit attributable to ordinary equity holders of Metro Bank by the weighted average number of ordinary shares in issue during the year plus the weighted average number of ordinary shares that would be issued on the conversion to shares of options granted to colleagues. As the Group made a loss during the year to 31 December 2019 the share options would be antidilutive, as they would reduce the loss per share. Therefore all the outstanding options have been disregarded in the calculation of dilutive earnings per share.

	2019	2018
(Loss)/profit attributable to ordinary equity holders of Metro Bank (£'million)	**(182.6)**	27.1
Weighted average number of ordinary shares in issue – diluted ("000)	**147,420**	95,853
Diluted earnings per share (pence)	**(123.9)**	28.2

14. Leases

Accounting policy	**Policy applicable from 1 January 2019** At the inception of a contract it is assessed whether the contract contains a lease. At the commencement of a lease, a lease liability and right of use asset is recognised (see note 8 for further details). The lease liability is initially measured as the present value for the future lease payments discounted at the rate implicit in the lease (where available) or the Group's incremental cost of borrowing. Generally the Group's uses its incremental cost of borrowing as the discount rate. Following initial recognition the lease liability is measured using the effective interest method. Where it is certain a break will be exercised in the lease, only the lease payments up until the date of the break are included. The lease liability is remeasured when there is a change to an index or rate used or when there is a change in expectation that a purchase option or break clause will be exercised or if the lease term is extended. When such an adjustment is made to the lease liability a corresponding adjustment is made to the right of use asset. Irrecoverable VAT on lease payments is excluded from the lease liability and is taken to the income statement over the period which is due. The Group has elected not to recognise a lease liability and right of use assets for any leases that have a term of less than 12 months or are for an asset which is deemed to be of low value (item is worth less than £5,000). For these leases the lease payments are recognised as an expense in the income statement on a straight-line basis over the life of the lease.

As outlined in note 1 on 1 January 2019 the Group implemented IFRS 16 'leases'. IFRS 16 was adopted under the modified retrospective approach and as such no comparatives are shown for the tables below, as all of the Groups leases are operating leases and as such were held off-balance sheet under IAS 17.

Lease liabilities

	2019 £'million
31 December 2018	–
Transition adjustment	**328**
1 January 2019	**328**
Additions and modifications	**23**
Disposals	**(3)**
Lease payments made	**(25)**
Interest on lease liabilities	**18**
31 December 2019	**341**
Current	**28**
Non-current	**313**

Discount rate
The weighted average discount rate as at 31 December 2019 was 5.7%. The increase in the discount rate from 5.5% at the point of transition reflects the increased incremental cost of borrowing during the year (the discount rate is not retrospectively adjusted for older leases).

Right of use assets
All disclosures relating to right of use assets, including the accounting policy can be found in note 8.

Lease commitments

At the balance sheet date, future minimum lease payments, inclusive of irrecoverable VAT at 20% (31 December 2018: 20%), were as follows:

	31 December 2019 £'million	31 December 2018 £'million
Within one year	**34**	31
Due in one to five years	**142**	133
Due in more than five years	**516**	495
Total	**692**	659

Low value and short leases

During the year to the ended 31 December 2019 £0.4 million was recognised in the income statement with respect to assets of low value under a lease or lease of less than 12 months.

Future income due under non-cancellable property leases

The Group leases out surplus space in some of its properties. The table below sets out the cash payments expected over the remaining non-cancellable term of each lease, exclusive of any VAT.

	31 December 2019 £'million	31 December 2018 £'million
Within one year	**1**	1
Due in one to five years	**3**	4
Due in more than five years	**7**	9
Total	**11**	14

15. Legal and regulatory matters

As part of the normal course of business the Group is subject to legal and regulatory matters the majority of which are not considered to have a material impact on the business.

The contingent liabilities detailed below are those which could potentially have a material impact, although their inclusion does not constitute any admission of wrongdoing or legal liability. The outcome and timing of these matters is inherently uncertain. Based on the facts currently known, it is not possible at the moment to predict the outcome of any of these matters or reliably estimate any financial impact. As such at the reporting date no provision has been made for any of these cases within the financial statements.

PRA and FCA investigations

The Group is currently subject to enforcement investigations by both the Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA").

• The PRA's investigation relates to potential breaches of the PRA's Fundamental Rules 2 and 6. The PRA is investigating whether there were failures to conduct regulatory reporting with due skill, care and diligence, to remedy an issue identified by the PRA in a timely fashion and/or to provide effective oversight and control to comply with its regulatory reporting obligations. These issues relate to the Group's assessment and reporting of its risk weighted assets. The Group is cooperating with the PRA's investigation. As yet, the PRA has given no indication of the likely timeframe for completing their investigation or of the action that might be taken as a result. As a result it is therefore not possible to identify the likely outcome of the investigation nor practicably quantify any potential liability for penalties or possible costs associated with the investigation.

• The current scope of the FCA's investigation concerns potential breaches of articles 15 and 17 of the Market Abuse Regulation (EU 596/2014), Principle 11 of the FCA's Principles for Business, and Listing Principle 1, Premium Listing Principle 6 and Rule 1.3.3 of the Listing Rules, in the period between 1 June 2017 and 26 February 2019. The investigations relate to the announcements made on 23 January 2019 and 26 February 2019 in relation to risk weighted assets and AIRB accreditation respectively and the impact these announcements had on the Group's share price. The Group is cooperating with the FCA's investigation. As yet, the FCA has given no indication of the likely timeframe for completing their investigation or of any action that might be taken as a result. As a result it is therefore not possible to identify the likely outcome of the investigation nor practicably quantify any potential liability for penalties or possible costs associated with the investigation.

Sanctions related matters

In November 2017, on advice of external legal counsel the Group notified the Office of Foreign Assets Control ("OFAC") that it had discovered that a UK based entity with which it had a banking relationship was subject to US sanctions relating to Cuba. The Group ended its relationship with the relevant entity. In addition, in 2019, it was discovered that a payment made to a customer's account, which it had received from a UK based financial institution, had been routed to the UK based financial institution from Iran. A further notification was made to OFAC. The Group has initiated a review of the foregoing matters, together with a review of its sanctions compliance policies with the support of external advisors. At this stage it is not quantiftypracticable to identify the likely outcome or estimate the potential financial impact of these matters.

US class action

The Group is also defending civil claims brought against it in the State of California based on breaches of US Federal Securities laws arising from allegedly false and misleading statements in relation to its loan book between March 2018 and May 2019. The Group intends to vigorously defend these proceedings. They are at an early stage, and as such it is not possible to identify the likely outcome or any potential financial impact.

16. Related parties

Key management personnel

The Group's key management personnel, and persons connected with them, are considered to be related parties. Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group. The Directors and members of the Executive Leadership Team are considered to be the key management personnel for disclosure purposes.

Key management compensation

Total compensation cost for key management personnel for the year by category of benefit was as follows:

	2019 £'million	2018 £'million
Short-term benefits	**5.8**	6.0
Share-based payment costs	**1.7**	3.1
Total compensation for key management personnel	**7.5**	9.1

Short-term employee benefits include salary, medical insurance, bonuses and cash allowances paid to key management personnel. The share-based payment cost represents the IFRS 2 charge for the year which includes awards granted in prior years that have not yet vested. The cost includes the in-year IFRS 2 costs for Listing Share Awards granted to selected key management personnel in recognition of their significant contribution to the private placement and admission of Metro Bank to the London Stock Exchange.

Banking transactions with key management personnel

The Group provides banking services to Directors and other key management personnel and persons connected to them. Loan transactions during the year and the balances outstanding at 31 December were as follows:

	2019 £'million	2018 £'million
Loans outstanding at 1 January	**3.8**	3.0
Loans relating to persons and companies newly considered related parties	**–**	0.1
Loans relating to persons and companies no longer considered related parties	**(3.1)**	–
Loans issued during the year	**0.2**	0.8
Loan repayments during the year	**(0.2)**	(0.1)
Loans outstanding as at 31 December	**0.7**	3.8
Interest expense on loans payable to the Group (£'000)	**90**	82

There were five (31 December 2018: ten) loans outstanding at 31 December 2019 totalling £0.7 million (31 December 2018: £3.8 million). Of these, three are residential mortgages secured on property, one is an asset finance loan one is an unsecured loan; all loans were provided on standard commercial terms.

In addition to the loans detailed above, the Group has issued credit cards and granted overdraft facilities on current accounts to Directors and key management personnel and persons connected to them. Credit card balances outstanding at 31 December were as follows:

	2019 £'000	2018 £'000
Credit cards outstanding as at 31 December	**16**	34

Deposit balances outstanding at 31 December were as follows

	2019 £'million	2018 £'million
Deposits held at 1 January	**4.5**	3.4
Deposits relating to persons and companies newly considered related parties	**2.1**	0.3
Deposits relating to persons and companies no longer considered related parties	**(1.8)**	(0.2)
Net amounts (withdrawn)/deposited	**(1.5)**	1.0
Deposits outstanding as at 31 December	**3.3**	4.5

Other transactions with related parties

The following transactions were carried out with related parties:

	2019 £'000	2018 £'000
Architectural design services	**4,885**	4,084
Creative and brand services	**428**	498
Total purchase of services with entities connected to key management personnel	**5,313**	4,582
Amounts outstanding as at 31 December owed by Metro Bank	**82**	51

Architecture, design, creative and brand services are provided by InterArch, Inc. ("InterArch"), a firm which is owned by Shirley Hill, the wife of Vernon W. Hill, II, who served as both Chairman and a non-executive director during the year, before stepping down from the Board on 17 December 2019.

Architectural design services

InterArch provided various architectural design services during the year, including pre-design, architectural design, interior design, construction management, landscape architectural, signage, security design and layout and procurement services. The fee structure for each project is based on a fixed percentage of final construction costs with certain additional services provided on an hourly basis.

Creative and brand services

InterArch also provided branding, marketing and advertising services.

In order to ensure that the terms of the InterArch arrangements are consistent with those that could be obtained from an independent third party, and in accordance with the Articles, the contractual arrangements with InterArch are subject to an annual review by the Audit Committee using benchmarking reviews conducted by independent third parties. For the architectural design contract, which covers the build and design of stores, a 'big four' professional services firms carries out the benchmarking review. For 2019 the Audit Committee has concluded that the contracts for services with InterArch are at arm's length and are at least as beneficial as those which could be obtained in the market from an alternative supplier.

The creative and brand services contract and architectural design service contract will end on 27 February 2020. In order to ensure the smooth transition to new providers, the Group will be entering into a short agreement with InterArch to support the transition until the end of June 2020.

17. Post balance sheet events

Following changes to the Group's strategy a revised business case was submitted to BCR in respect of the £120 million grant it previously awarded the Group as part of the Capability and Innovation fund (part of the RBS alternative remedies package). The proposal put forward was accepted by BCR on the 25 February 2020 as part of which the public commitments were amended. As part of this it was agreed that £50 million of the grant would be returned to BCR. The approval of the new proposal by the Board and its acceptance by BCR post year-end is considered an adjusting event and as such the £50 million to be repaid is classified within other liabilities as at 31 December 2019. All of the sums recognised to date, either in the income statement or offset against capital expenditure are still components of the revised commitments and as such no adjustments to these amounts has been made.

Key capital disclosures

The information set out within this section does not form part of the statutory accounts for the years ended 31 December 2019 or 31 December 2018.

Key Metrics
The table below summarises the key regulatory metrics.

	31 December 2019 £'million	31 December 2018 £'million
Available capital		
CET1 capital	**1,427**	1,171
Tier 1 capital	**1,427**	1,171
Total capital	**1,676**	1,420
Risk weighted assets ("RWAs")		
Total risk weighted assets	**9,147**	8,936
Risk-based capital ratios as % of RWAs		
CET1 ratio	**15.6%**	13.1%
Tier 1 ratio	**15.6%**	13.1%
Total capital ratio	**18.3%**	15.9%
Additional CET1 buffer requirements as % of RWAs		
Capital conservation buffer requirement	**2.5%**	1.875%
Countercyclical buffer requirement	**0.99%**	0.98%
Total of bank CET1 specific buffer requirements	**3.49%**	2.855%
Leverage ratio		
Leverage ratio	**6.6%**	5.4%
Liquidity coverage ratio		
Liquidity coverage ratio ("LCR")	**197%**	139%

Capital
Overall total capital resources have increased by £256 million in 2019 mainly due to £375 million of equity raised in May 2019, partially offset by current year losses of £183 million

RWA & CET1 ratio
The increase in RWAs during the year is mainly driven by the increase in Operational Risk RWAs.

CET1 ratio increased to 15.6% at the end of 2019 up from 13.1% in 2018.

Buffer
Total CET1 buffers requirement 3.49% have increased due to:
- The Capital conservation buffer requirement increased to 2.5% on 1st January 2019. During 2018 this requirement was 1.875%.
- The UK Countercyclical Buffer (CcyB) requirement has remained static at 1% during 2019. The 0.99% shown in the table above is the weighted average of CcyB's issued by various countries.

Leverage Ratio
The table below shows the bank's Tier 1 Capital and Total Leverage Exposure that are used to derive the Leverage Ratio. The leverage ratio is the ratio of Tier 1 Capital to Total Leverage exposure.

	31 December 2019 £'million	31 December 2018 £'million
Common equity tier 1 capital	**1,427**	1,171
Additional tier 1 capital	**-**	-
Tier 1 capital	**1,427**	1,171
CRD IV Leverage exposure	**21,506**	21,704
Leverage ratio	**6.6%**	5.4%

The leverage ratio is 6.6% which is in excess of the Basel Committee's minimum capital requirement of 3.0% and the bank's strategic target of maintaining a UK leverage ratio of greater than 4.0%.

Liquidity coverage ratio

The table below shows the bank's Total HQLA and total net cash outflow that are used to derive the liquidity coverage ratio.

	31 December 2019 £'million	31 December 2018 £'million
Total HQLA	**3,356**	3,489
Total net cash outflow	**1,708**	2,506
Liquidity coverage ratio ("LCR")	**197%**	139%

The LCR was 197% at 31st December 2019 which exceeds the Basel Committee's minimum of 100%.

The bank's liquidity requirement, based on the LCR calculation, has reduced reflecting the higher proportion of sticky retail deposits and SME deposits at December 2019 versus December 2018.

Overview of RWAs and capital requirements

The table below sets out the risk weighted assets and Pillar 1 capital requirements for Metro Bank. The bank has applied the standardised approach to measure credit risk and the basic indicator approach to measure operational risk. Under the approach the bank calculates its Pillar 1 capital requirement based on 8% of total RWAs. This covers credit risk, operational risk, market risk and counterparty credit risk.

	31 December 2019 £'million	31 December 2018 £'million	Pillar 1 capital required 31 December 2019 £'million
Credit risk (excluding counterparty credit risk (CCR))	**8,591**	8,560	687
Of which the standardised approach	**8,591**	8,560	687
CCR	**4**	2	-
Of which mark to market	**3**	2	-
Of which CVA	**1**	-	-
Market risk	**6**	3	-
Operational risk	**546**	370	44
Of which basic indicator approach	**546**	370	44
Amounts below the thresholds for deduction (subject to 250% risk weight)	**-**	-	-
Total	**9,147**	8,936	731

The increase of £211 million in the RWAs is mainly due to increase in Operational Risk RWAs resulting from Revenue growth over the three year period that the standard multiplier for the calculation is based on.

Credit risk exposures by exposure class 2019

The Pillar 1 capital requirement for Credit Risk is set out in the table below. The Pillar 1 requirement in respect of credit risk is based on 8% of the RWAs for each of the following standardised exposure classes.

Exposures subject to the standardised approach	**Exposure Value £'million**	**RWA £'million**	**Capital Required £'million**
Central governments or central banks	**3,200**	**-**	**-**
Institutions	**212**	**42**	**3**
Corporates	**764**	**683**	**55**
Retail	**608**	**414**	**33**
Secured by mortgages on immovable property	**13,526**	**6,005**	**480**
Covered bonds	**469**	**47**	**4**
Claims on institutions and corporates with a short-term credit assessment	**-**	**-**	**-**
Securitisation position	**1,580**	**316**	**25**
Exposure at default	**93**	**95**	**8**
Items associated with particularly high risk	**18**	**27**	**2**
Other exposures	**999**	**962**	**77**
Total	**21,469**	**8,591**	**687**

Credit risk exposures by exposure class 2018

Exposures subject to the standardised approach	Exposure Value £'million	RWA £'million	Capital Required £'million
Central governments or central banks	2,652	-	-
Institutions	188	38	3
Corporates	633	574	46
Retail	859	565	45
Secured by mortgages on immovable property	12,989	6,015	482
Covered bonds	507	51	4
Claims on institutions and corporates with a short-term credit assessment	134	66	5
Securitisation position	3,061	595	48
Exposure at default	59	65	5
Other exposures	622	591	47
Total	21,704	8,560	685

Total credit risk exposures at the end of 2019 have decreased by £235 million primarily driven by the sale of £1.5 billion of Treasury assets but this is partially offset by increases on lending secured on immovable property £574 million and increases in cash held with central banks £548 million.

Overall the RWAs have remained relatively flat. There was an increase in other assets due to the adoption of IFRS 16 lease accounting during 2019 but this was offset by the sale of Treasury Assets.

Capital Resources

The table below summarises the composition of regulatory capital.

	31 December 2019 £'million	31 December 2018 £'million
Share capital and premium	**1,964**	1,605
Retained earnings	**(210)**	(236)
(Loss)/profit for the year[18]	**(183)**	27
Available for sale reserve	**(2)**	(3)
Other reserves	**14**	10
Intangible assets	**(168)**	(197)
Net deferred tax assets/deferred tax liabilities	**4**	(47)
Other regulatory adjustments	**8**	12
CET 1 capital	**1,427**	1,171
Tier 1 capital	**1,427**	1,171
Tier 2 capital	**249**	249
Total capital resources	**1,676**	1,420

The bank's capital adequacy was in excess of the minimum required by the regulators at all times.